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Congress. Senate. Committee on Banking and
Currency.

Establishing savings bank branches of na-
tional banks ... Hearing ...

66-3 pt. 1-2.

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✓ESTABLISHING SAVINGS BANK BRANCHES
OF NATIONAL BANKS

HEARING

BEFORE THE

COMMITTEE ON BANKING AND CURRENCY
UNITED STATES SENATE

SIXTY-SIXTH CONGRESS
THIRD SESSION

ON

S. 4721

A BILL TO AMEND THE ACT APPROVED DECEMBER 23, 1913,
KNOWN AS THE FEDERAL RESERVE ACT, AND
TO AMEND SECTION 5236 OF THE
REVISED STATUTES

Printed for the use of the Committee on Banking and Currency



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ESTABLISHING SAVINGS BANK BRANCHES OF NATIONAL BANKS.

FRIDAY, JANUARY 21, 1921.

UNITED STATES SENATE, COMMITTEE ON BANKING AND CURRENCY.

The committee met pursuant to call, at 11 o'clock a. m., at the room of the committee, 303 Senate Office Building, Senator George P. McLean presiding.

Present: Senators McLean (chairman), Calder, Owen, Hitchcock, Pomerene, Fletcher, Kendrick, and Henderson.

The CHAIRMAN. There are present this morning some gentlemen representing the banks who desire to make some statements to the committee. The committee has before it a bill that provides for the establishing of savings-bank branches of national banks and permitting a certain percentage for investment to be loaned on real estate. The committee will first hear Mr. Paton.

STATEMENT OF MR. THOMAS B. PATON, NEW YORK, GENERAL MANAGER OF THE AMERICAN BANKERS' ASSOCIATION.

Mr. PATON. Mr. Chairman, I would like to say that there is present this morning also, representing the American Bankers' Association, Mr. H. H. McKee, president of the National Capital Bank of Washington, who is chairman of the national bank division of the American Banking Association, and also Mr. George O. Walson, president of the Liberty National Bank of Washington, who is a member of the legislative committee of the American Bankers' Association.

Now, as I understand it, Mr. Chairman, the views of the American Bankers' Association have been desired as to the wisdom and the necessity of this bill, S. 4721, known as the Calder bill.

The American Bankers' Association is composed of 22,000 and upward of members of national banks, State banks, saving banks, and trust companies, situated all over the country, and it has been absolutely impossible in the short time since this bill was introduced to get any widespread expression of view as to the necessity of this measure. Such expression as has been obtained is that there are many objectionable features in it, and that it should not in any event be passed in its present form, and if there is any germ of principle or merit in it, that owing to the radical nature of the bill, in that it changes the existing method of organization of the national banks

and changes the scope of their investments of funds, it should not be seriously considered at this time, but that an opportunity be given for its study so that it might come up again at the next session of Congress.

There does not appear to have been any demand for this bill on the part of the national banks, nor on the part of the depositors of the national banks, but it would seem that the underlying motive is to divert the funds of the national banks from commercial channels in which they are now invested to the benefit of borrowers who would build homes in view of the housing shortage. This is evidenced by the report of Senator Calder from the Select Committee on Reconstruction and Production, report 666, in which he says:

The committee recommends modification of the Federal reserve act so as to permit the Federal Reserve Board to direct that portion of the long-term deposits in the member banks, at least a portion of the deposits in the savings departments be invested in long-term securities and mortgages in order to give greater security to the savings and to assist in providing homes for the thrifty.

In other words, the purpose is to take some of the funds out of the national banks in the different sections of the country, in all localities where they are now interested in commercial pursuits and cause the calling in of the loans, and to compel reinvestment of those funds in real estate securities.

Under the existing Federal law, section 24 of the Federal reserve act, power is now given the national banks to make loans on real estate and farm loans; also on other real estate—unincumbered real estate—to the extent of one-third of their time deposits, which I would figure would be about a billion dollars.

The only power the national banks have not now which this bill would give them would be to make such loans in central reserve cities, as section 24 excludes central reserve cities from that permission, and if it were necessary to extend their power to the central reserve cities that could be done by a mere amendment of section 24 of the Federal reserve act.

Senator HITCHCOCK. As it is now, the national banks or member banks in the central reserve cities can not make any loans whatever?

Mr. PATON. Yes, sir; otherwise they can make loans up to one-third of their time deposits.

Senator HITCHCOCK. That is, banks in other cities and other regions?

Mr. PATON. All over the country, except the central reserve cities.

Senator HITCHCOCK. Have you any figures to show to what extent the national banks have availed themselves of that privilege?

Mr. PATON. I hurriedly took the last printed report of the Comptroller of the Currency and took the figures for June, 1919, and they, although a year old, would probably be of some benefit.

According to these figures, the demand deposits of national banks were \$9,106,000,000, time deposits \$2,784,000,000, substantially a total of \$12,000,000,000, one-fourth of which, or \$3,000,000,000, are time and three-fourths demand. The actual loans at that same date, on the security of real estate not in accordance with section 24, were \$90,000,000, and on real estate under section 24, \$93,000,000 a total of \$183,000,000.

Senator HITCHCOCK. What do you mean by saying not in accordance with section 24?

Mr. PATON. I do not know what it means. It is strictly so stated in the report, "not in accordance." What would you say as to that, Mr. McKee?

Mr. MCKEE. That means real estate loans that are taken without direct authority of section 24 of the Federal reserve act. That provides that any national bank may loan on the security of real estate for a period of one year not more than 50 per cent of the assessed value of the property, and those were loans made outside of that.

Mr. PATON. Now, under this you will see that there are less than \$200,000,000 loaned on real estate under section 24, out of a permission to loan one-third of a billion. So that the national banks have not loaned all that they have been permitted to.

The CHAIRMAN. Would it not be more than a billion—one-third?

Mr. PATON. One-third of three billions. It is up to one-third.

The CHAIRMAN. Oh, I understand.

Senator HITCHCOCK. That is time deposits?

Mr. PATON. Yes, sir. Now, Mr. Chairman, coming to this bill itself, it has three main features. It would departmentize national banks. Instead of having a single capital, it would provide for apportionment of the capital of each department to that department, either as the State law provides as to State institutions having departments, or in the absence of State law, as the Federal Reserve Board should prescribe.

One great objection to that apportionment of the capital is that it would restrict the loaning capacity of a national bank to a single borrower. Under the present national law a national bank can loan one-tenth of its capital and surplus to a single borrower, but if you take away a portion of that commercial capital and segregate it and set it apart as a savings capital, then it would naturally follow under this bill that only one-tenth of the commercial capital could be so loaned. In other words, a bank having \$1,000,000 capital could loan \$100,000 to a single borrower, but if \$500,000 of that capital was segregated and set apart as savings capital, then the bank could only loan \$50,000 to that borrower. That would be a very serious restriction and curtailment of the power of loaning.

The gentlemen here who are right in the banking business can explain how that would operate much more in detail than I.

Then, while the bill is permissive in a way, it contains a provision which as I construe it makes it compulsory; it would put it in the power of the Federal Reserve Board to make it compulsory. The bill provides on page 5, lines 10 to 15, as follows:

Provided, however, That the Federal Reserve Board may, in its discretion, require any national bank to establish and operate a savings-bank department in accordance with the provisions of this section and may prohibit any national bank from making loans on real estate except through a separate savings department.

That would seem to place it within the power of the Federal Reserve Board to require a national bank to departmentize, to separate its capital and to specially invest its assets not in the way they are now invested, as the needs of the locality require, but in the way this bill provides, for the investment of the assets of the savings department, and its effect would be to take out of the community where funds are now loaned in the way they are, for the best interests of the

community, according to the judgment of the directors, and compel them to be invested away from the community. There are other impractical provisions in the bill.

Senator HITCHCOCK. You say, compel them to be invested away from the community. I thought the restrictions in the Federal reserve act were such that a bank could only loan on real estate in the immediate neighborhood?

Mr. PATON. I am referring now particularly to the investment in bonds and securities.

Senator HITCHCOCK. Oh, I understand.

Mr. PATON. If the savings assets can only be invested, as this bill provides, then they must either be invested in real estate or in such bonds and securities as are legal investments for savings banks according to the law of the particular State. There may be none such in the community, and probably are not, and therefore if they are to be loaned at all they must be taken out of the community and put into these securities. That is what I tried to convey.

Senator CALDER. It is practicable to-day for the national banks to loan their money all over the country.

Mr. PATON. They loan it in the locality to the extent of the needs of the locality, and then it is invested largely in commercial paper.

Senator CALDER. And they deposit their funds in the larger banks, in New York. I am speaking of the banks away from New York or Chicago, or other money centers. They do that, do they not?

Mr. PATON. Yes, sir; they keep their accounts for commercial purposes.

Senator CALDER. I did not want to interrupt your line of thought. I was not present at the beginning of your testimony and I simply desire to ask some questions.

Mr. PATON. Yes, sir. Then, so far as the principle of segregating assets as distinguished from the capital is concerned, and safeguarding of the saving depositor, without the special investment of assets, that is a subject as to which there may be room for development and I can not express the thought of our members on that. But as the bill in its present form now reads there are those objections that I detailed, the objection to the apportionment of the capital and the objection to certain investment of the assets of the savings department, and chiefly and principally the mandatory power that it would give to the Federal Reserve Board over national banks; in fact, making it a law-making power.

As to the practical effect of this bill I would like to relinquish in favor of Mr. McKee, who is chairman of the national bank section.

Senator CALDER. Just one minute, Mr. Paton. What position do you occupy?

Mr. PATON. I am general counsel of the American Bankers' Association.

Senator CALDER. Of course you understand that the purpose of this bill is simply—at least my purpose is—to simply afford funds to enable the people of the country to build homes.

Mr. PATON. Yes, sir.

Senator CALDER. From inquiries that I have made on this subject throughout the country, I find that many national-bank officers are agreeable to the provision permitting them to loan upon homes. Mr.

Miller, associated with me, as you know, indicates that you have testified that the demand deposits in national banks is something like \$9,000,000,000.

Mr. PATON. Yes, sir.

Senator CALDER. And the time deposits—that is savings deposits; when you say time, do you mean savings deposits?

Mr. PATON. Savings and certificates.

Senator CALDER. I wish you would separate it so that you would know what the savings deposits are.

Mr. PATON. I took those figures from the report of the Comptroller of the Currency as of June 30, 1919. The time deposits were thus separated: Certificates of deposit, \$898,170,000; State, county, and municipal deposits, \$8,240,000; postal savings, \$94,088,000; other time deposits—which I should construe as savings—\$1,784,442,000 making a total of \$2,784,940,000.

Senator CALDER. I had in mind \$1,700,000,000 deposits when I introduced that bill. My purpose, of course, is to permit the people in communities where this money is deposited to be able to borrow it back under proper precautions and every safeguard for the purpose of building homes. Now you know, of course, that outside of the larger western cities, you have not got the savings system which we have in the East, and which works so splendidly in affording financial assistance to the people to build homes?

Mr. PATON. The answer to that is that the power now exists under section 24 of the Federal reserve act, except in central reserve cities. There a national bank is permitted to loan to the extent of one-third of its time deposits, which would be \$1,000,000,000 on real estate.

Senator CALDER. I do not quite understand it as you have stated it. Let me see if I understand it. As I understand, the national banks can loan on a man's note and take as security for payment of the note a mortgage upon his real estate which can run for only one year?

Mr. PATON. One year. It can be renewed.

Senator CALDER. Well, when it is renewed, do you not beat around the bush, and are you not destroying this thing for which the law was enacted? Does not the law mean that you can accept a mortgage as security for a loan and run that for one year?

Mr. PATON. Section 24 provides:

SEC. 24. Any national banking association not situated in a central reserve city may make loans secured by improved and unencumbered farm land situated within its Federal reserve district or within a radius of one hundred miles of the place in which such bank is located, irrespective of district lines, and may also make loans secured by improved and unencumbered real estate located within one hundred miles of the place in which such bank is located, irrespective of district lines; but no loan made upon the security of such farm land shall be made for a longer time than five years, and no loan made upon the security of such real estate as distinguished from farm land shall be made for a longer time than one year nor shall the amount of any such loan, whether upon such farm land or upon such real estate, exceed fifty per centum of the actual value of the property offered as security. Any such bank may make such loans, whether secured by such farm land or such real estate, in an aggregate sum equal to twenty-five per centum of its capital and surplus or to one-third of its time deposits and such banks may continue hereafter as heretofore to receive time deposits and to pay interest on the same.

The Federal Reserve Board shall have power from time to time to add to the list of cities in which national banks shall not be permitted to make loans secured upon real estate in the manner described in this section.

Senator FLETCHER. How much would that 25 per cent of surplus and capital yield? It says you can loan that on one-third of the time deposits.

Mr. PATON. I imagine that would be one and one-third, would it not, Mr. McKee?

Mr. MCKEE. I think it would.

Mr. PATON. I think it is optional to loan there. Now, if the present law is not sufficient, why not make a simple amendment to this section 24 to cover your purpose?

The CHAIRMAN. What would the mutual savings banks in the big cities have to say about that? They do not pay any dividends.

Mr. PATON. It would bring the national banks more in competition with the mutual savings banks. But, as I understand, under the present law, the national banks now operate savings departments and make loans on real estate.

Senator FLETCHER. By organizing separate departments?

Mr. PATON. Some banks do; and there are, of course, laws in some States which restrict the use of the word "savings" to savings institutions incorporated under the laws of the State, but the better opinion is that the national banks, notwithstanding those State laws, have the power to receive savings accounts and operate savings departments.

So that as a permissive measure, this bill would hardly seem necessary.

The CHAIRMAN. You say operate savings departments, but they would not have the right to loan on real estate?

Mr. PATON. Not except on permission.

The CHAIRMAN. That is, in the large central reserve cities, it would not have power to loan on real estate; that is what Senator Calder wants to provide for. But in these large places, I understand, such, for instance, as New York.

Senator CALDER. Mr. Chairman, I am not so particularly interested in this matter from the standpoint of New York City. There we have our great savings bank system. In New York State these savings banks have deposits exceeding \$2,500,000,000, and they have loaned of that on real estate, on first mortgage, about \$1,300,000,000. It is in the territory away from the great eastern cities. In my investigation of the subject I find that in the western country and southern country there is a great demand for money for financing the building of homes.

Mr. PATON. They why does not the existing section 24 cover that?

Senator CALDER. It does not seem to because the contention is made that they can make their real estate mortgages but for one year, and the bankers whom I have talked to seem to feel that they are beating around the situation by renewing loans, and they claim that that is against the spirit of the law. I do not mean to say that the gentlemen I talked to are members of your association, but I have talked to many, many banking officials throughout the country, national-bank men. I talked with the president of the National Bank of Denver, whose name I do not recall, who said that they had \$13,000,000 of savings deposits, and he told me he would welcome some legislation that would permit him to loan money out on real estate mortgages that he might effectually help the construction of homes in that city.

That is all I am trying to do. I am not trying to break down your system.

Mr. PAYTON. This bill would revolutionize it so radically. Mr. Chairman, I would like Mr. McKee to make a statement to the committee at this time.

Senator CALDER. You say that \$300,000,000 has been loaned on real estate mortgages. That is about 8 per cent of your time deposits. I would like to see you have 40 per cent of those time deposits. Those time deposits are long-term deposits. They should not be mortgaged with your time deposits and loaned in New York, or where your bank might obtain commissions for the loan. It ought to be loaned back to the people who deposit with your bank, and if you can help us work out some scheme to accomplish this purpose, which would be just as effective, and which would protect your deposits, I would be glad to accept it.

Mr. PATON. Why would not a simple amendment of section 24, to cover the loans on real estate mortgage for a longer time limit, at a certain amount, and excluding the central-reserve cities, accomplish the whole purpose?

Senator CALDER. Personally I would be very glad to have you present an amendment of that kind which we might consider. But after consultation with some members of the Federal Reserve Board, this bill was drawn by them at my request. We were simply trying to make sure that we were safeguarding the deposits of the people who put their money in the national banks, and for that reason we prepared the bill as we have.

Mr. PATON. Mr. Chairman, I would like Mr. McKee to outline that situation at this time, if it meets the convenience of the committee.

The CHAIRMAN. Very well.

STATEMENT OF MR. HENRY H. MCKEE, PRESIDENT NATIONAL CAPITAL BANK OF WASHINGTON, D. C., ALSO PRESIDENT OF THE NATIONAL BANK DIVISION OF THE AMERICAN BANKERS' ASSOCIATION.

Mr. MCKEE. Mr. Chairman and gentlemen, when this bill was brought to my attention I immediately got in touch with the members of our executive committee, of which we have 15 located in the various Federal reserve districts, and also asked Mr. Montjoy, secretary of our division, to send out telegrams and letters to other prominent bankers. I have nearly, if not quite, all the replies here. There does not seem to be any objection to the principle of the segregation of savings from commercial deposits, nor does there seem to be any particular objection to the amendment to the Federal reserve act that would allow a greater amount to be loaned on real estate.

Senator POMERENE. Let me ask you a question there, if it will not interrupt you. How do you keep those accounts that you have of your savings deposits? You have an account showing your savings and your current commercial accounts, have you not?

Mr. MCKEE. Yes, sir.

Senator POMERENE. Now, when you speak of segregation, what do you mean? How could you change your present administration?

Mr. MCKEE. Segregation with particular respect to investment of the funds, as I understand it. The particular objection that has been

developed by the replies to my inquiry, seems to be to the machinery that is provided in this bill to accomplish the purpose. The first objection is to the allocation of the capital and the surplus to the various needs of a combined business; that is, allocating so much to the commercial department, so much to the trust department, and so much to the savings department.

We believe that the same degree of security will be provided for all classes of accounts, if the capital requirement is permitted to remain unchanged. Speaking as a practical banker, I can see one danger at the present time in the allocation of capital. If a bank having a million dollars' capital surplus is required to allocate one-half of that amount to its savings deposits, it would cut down its ability to loan to one borrower as large an amount as it is permitted to loan now, and that would create at once a curtailment of the loans of banks throughout the United States to a very great extent; I could not estimate how much.

There is one bank in this city that has more savings deposits than commercial deposits.

Senator POMERENE. You mean a national bank?

Mr. MCKEE. Yes, sir; a national bank; and that is true of a great many national banks throughout the country, because they have been developing thrift, I think, during the last few years, and have accumulated very large savings deposits, which they loan in the usual and customary way upon the security of commercial paper, invest them in other securities, and to some extent invest them in real-estate loans.

The other objection which seems to have been developed is the mandatory provision, that the Federal Reserve Board shall have the power to require any national bank to establish and operate a separate savings department.

About 15 years ago the little bank, of which I am president, confronted with the necessity of providing savings facilities for its depositors, and the people of the southeastern section of the city, considered very seriously the question of operating a separate savings department. But the Comptroller of the Currency had not at that time given his entire approval to the operation of a savings department in a national bank, so we organized a separate institution, which is the only true savings bank in the city of Washington, in that it receives nothing but savings accounts. It invests its funds principally in real-estate loans, but keeps a fair amount invested in good marketable securities, which it can get rid of easily, as a secondary reserve in addition to its primary reserve of cash.

Now, the Federal Reserve Board, if this power were granted it, might say that our national bank would have to open and operate a separate savings department, which would bring up the question. What are you going to do with this savings bank? It, the savings bank, might decide to open a commercial department, and the two banks would thereby be put in the position of being competitors if they were not amalgamated. I know that there are many cases like that throughout the United States, the most striking illustration of which is the Continental and Commercial National Bank of Chicago and the Fifth-Third National Bank of Cincinnati. There are several other large, as well as small, banks throughout the country in the same position. Instead of operating a separate savings depart-

ment they recognize the soundness of the principle of segregation, and in order to keep their commercial business, their trust business, and their savings business separated they have established separate banks.

Senator FLETCHER. As to this separate savings department that you now operate, are you governed by section 24?

Mr. MCKEE. No, sir; the savings bank is not subject to the Federal reserve act, because it is a distinct bank, organized under the laws of the District of Columbia.

Senator FLETCHER. And not organized under the national-bank law at all?

Mr. MCKEE. No, sir. The savings bank is not in the Federal reserve system.

The CHAIRMAN. If they were organized as provided for in Senator Calder's bill, what would happen in case one of the departments failed?

Mr. MCKEE. That was a question which was brought up by Mr. Wayne, president of the Girard National Bank, of Philadelphia. He is a member of our executive committee. That is a very large bank, with a capital of \$2,000,000 and a surplus of \$5,000,000. He says:

There does not appear to be any equitable reason why the capital of any banking institution should be allocated to secure any special branch of its activities. A banking institution is either sound or insolvent, and in case of insolvency its assets should be available for its creditors in general, and in my humble opinion it would only cause confusion and great misunderstanding on the part of depositors if specific amounts of capital were designated to cover specific liabilities.

Suppose a bank had a certain capital, one-third of which was designated as covering commercial accounts, one-third trust business, and one-third savings accounts, and one of these departments was a big earner and the other two about made expenses. The statement issued by this bank would certainly be a curious one if the relative strength of the various departments was indicated in the published statement, and I am convinced that the one department able to show a profit would continue to thrive, and the business of the other two departments ultimately transferred as far as possible to the department making the favorable showing, with the result that the remaining two-thirds of the bank's business would dwindle to nothing, to the detriment of the bank as a whole; whereas if the general business of the bank was conducted under one capitalization, customers wouldn't care whether one department or another was on a paying basis as long as the bank was prosperous.

Senator CALDER. Is not the purpose of my bill to protect savings depositors whose deposits may be held for 60 days, while commercial deposits could be drawn on at once?

Mr. MCKEE. That is true, but I believe that the one capitalization would protect it just as much as segregation of part of the capital to the security of that particular branch of deposits.

Senator CALDER. Is it not contrary to the fundamental principles of sound banking to intermingle your long and short term business?

Mr. MCKEE. I think so, personally; yes, sir. Of course, I can not answer for the great number of banks that I represent; that is my personal opinion; and that is the reason we organized a separate institution when we took up the question of establishing a savings department in our bank.

Senator CALDER. That is the reason the Federal Reserve Board, when I discussed the terms of this bill with them, thought it wiser to segregate the deposits and segregate part of the capital for the purpose of taking care of just this very thing.

Mr. MCKEE. I can not quite follow you as far as segregation of capital is concerned, but I think segregation of deposits is wise, and I do not think that would meet with much opposition from the members of our association.

The CHAIRMAN. I do not quite understand the method of the national banks as to certain capitalization. You segregate part of your capital to run the savings department. If the savings department becomes insolvent, is that not going to impair the capital of your national bank?

Mr. MCKEE. Yes, sir; absolutely.

The CHAIRMAN. Then what is the comptroller going to do under the law?

Mr. MCKEE. I do not know what he would do.

The CHAIRMAN. It seems to me that that is an important point.

Senator POMERENE. Suppose the banks become somewhat embarrassed because of a decline in the valuations of real estate, etc., as often happens in some of these boom towns or cities, or even in some of these industrial towns, as during the period of the war, when there was great development, and it flattens out afterwards—what would happen if these real estate securities would depreciate; what would be the effect of that?

Mr. MCKEE. The savings department would be embarrassed, and under the provisions of this bill it would not be permitted to call on the commercial part of the business to help it or to protect it in any way, because this specifically prohibits the deposit of funds in one department by another, and a natural result would be for the savings department of the national bank, when it became embarrassed, to call on the commercial part of the bank for help and assistance, which might not be permitted under the terms of this bill.

Senator POMERENE. Then suppose the situation to be such as they are, taken as one unit; it would be able to weather this little embarrassment?

Mr. MCKEE. Absolutely.

Senator POMERENE. And save the entire situation. If it became known that the savings department was embarrassed, why, necessarily, it seems to me that it would embarrass the commercial department as well, because there is nobody who is going to make a deposit with a bank if it is known that part of it is being very much embarrassed.

Mr. MCKEE. But the commercial bank, you will find, nearly always has available the kind of securities it can rediscount or hypothecate and raise money to take care of any embarrassment in any department of the bank.

Senator CALDER. In other words, the savings bank has the advantage of serving notice?

Mr. MCKEE. Yes, sir; that is true.

Senator CALDER. And is it not also true that an emergency such as Senator Pomerene has referred to is more likely to occur in a commercial than in a savings bank? In your long experience, have you not found that the securities of mortgages on real estate, no matter what the boom conditions were, were sounder and surer in the long run in commercial business?

Mr. MCKEE. It all depends on the manner in which loans are made. If they are carefully selected, and there is a safe margin, there is

very little fear that any department of a bank will get into trouble; but if they loan too much money upon bad or insufficient security they will find their loans uncollectible; the people are unable to pay them. Thus you bring the question down to the personal equation; the managers or officials of the bank are selecting their loans wisely.

Senator POMERENE. Senator Calder, is this not the proposition: The national banks, as originally organized and as now maintained, are largely commercial banks. Now, are you not by your system going to completely change the theory of this commercial banking system?

Senator CALDER. Senator Pomerene, originally the national-bank law provided for commercial banks for commercial business only, but during recent years the national banks have gone into the savings business; and I have no complaint of that. In the city of New York the national banks do no savings business. They do in the smaller places in New York State, away from New York City, and there has been no difficulty about it. But I have felt that if we wanted to do anything to get from these banks which contain the deposits of the people assistance to provide for the housing shortage that has been facing the Nation, and which we have had before us for the last four or five years, we ought to elaborate on these savings deposits.

Senator POMERENE. I expect my interjections are interfering with Mr. McKee, and I owe him an apology for that.

Mr. MCKEE. There is no apology necessary, Senator. I shall be glad if you will interrupt and ask any question.

Senator POMERENE. But this thought occurs to me: I am in sympathy with your desire to relieve this housing condition, but, at the same time, I am not as yet prepared to say that commercially we have got more money than we need. That is the difficulty about this proposition. We have, for instance, our farm organization, our business organization, complaining—and I am speaking now, when I say business organization, with reference to conditions as they are in our cities in Ohio, the industrial centers of Ohio—that one of their troubles is that commercially they can not get the money they want, and for that reason they insist upon this expansion, and our farm organizations, etc., are complaining a great deal more on that same line—that is the commercial side of it.

Senator CALDER. I do not agree with you, Senator Pomerene, at all. I think we need money for these permanent investments—for building homes and factories.

The CHAIRMAN. Do you not need it for both?

Senator CALDER. Yes; we do.

The CHAIRMAN. That is the trouble, you are not adding a dollar.

Senator CALDER. No; but we are permitting this important purpose.

The CHAIRMAN. You are diverting—that is it.

Senator CALDER. My purpose is to permit the loaning of these long-term deposits for long-term investments.

The CHAIRMAN. These investments are all subject to mandatory restrictions. Do you not think that is a good idea?

Mr. MCKEE. Yes; I think it is. I think savings deposits are different from commercial deposits.

The CHAIRMAN. There is no provision for that in this bill.

Mr. MCKEE. When a man comes into a bank to make a commercial deposit he creates the relation of debtor and creditor—the bank is the debtor and the depositor is the creditor—and when he places his money in the bank, subject to check, he does so with the knowledge that it is to be loaned for commercial transactions. But when a man, who has saved up \$1,000, comes to the bank and says, in effect: "I do not know what to do with this money. I am not skilled in the business of making investments. Take it from me and put it on deposit at a certain rate of interest, and invest it so you can make something for yourself and something for me," he has created a trusteeship, and those funds ought to be treated differently. But I do not believe this bill goes about it the right way.

I believe the effect of this bill, if enacted into law, would be to divert a very large amount of money that is now invested in commercial credits—and we know banks are full of frozen credits to-day that they can not realize on—and it would undoubtedly cause a great deal of embarrassment, particularly in the South and West, where the banks are full of agricultural and cotton loans. They could not get the money at this time without arbitrarily demanding curtailment of commercial loans, and there is great danger in attempting to do such a thing at this time.

Senator CALDER. That objection has been made to me by people who have studied outside of the banking interests, and they propose that we extend it over a period of five years, the going into effect of the terms of the bill.

Senator POMERENE. Senator Calder, do you not think the statement which Mr. McKee has just made is pretty sound?

Senator CALDER. Yes; it is sound, but that does not take away the fact that these long-term deposits ought to ultimately go into long-term loans.

Mr. MCKEE. I do not think there can be any valid objection to that. The principle is sound, but the details of the way in which this bill proposes to put it into operation are objectionable.

The CHAIRMAN. Your savings bank department in your national banks would probably be for long-time loans?

Mr. MCKEE. Yes, sir.

The CHAIRMAN. And they might run up to 5 per cent and perhaps more. What effect is that going to have on the mutual savings banks that can not pay 4 per cent in normal times—that is, they pay it with difficulty, a great many of them; they pay no dividends, while the national banks do. Would it not encourage buying?

Mr. MCKEE. Absolutely; the buying of savings deposits by offering higher rates as an inducement.

The CHAIRMAN. What effect would that have?

Mr. MCKEE. It would drive the interest on such deposits up and be reflected in higher interest rates on the money that those banks have to loan, because they would have to ask more for the money in order to pay a higher rate for it.

The CHAIRMAN. Would it not raise the whole rate on real estate?

Mr. MCKEE. It would have a tendency to do that.

The CHAIRMAN. Would that benefit the man who wants to build a home?

Mr. MCKEE. I do not think so. Dwelling on that question briefly, I will say that I loan a great deal of money for customers here in

the city of Washington, and it has been my experience that there is plenty of money to be loaned here upon real estate, but the people who have the money are not willing to loan it upon the basis of the increased price of real estate. There has been a vast amount of what we call junk on the real estate market here recently, old houses offered at fancy prices because people had to have houses to live in. A house that would sell for \$5,000 in prewar times and would probably be worth that, has very often sold for \$7,000 and \$8,000 because the man who bought it would have to have some place to live; and not having all the money required, he has sought help to buy it.

Very often he could raise only one or two thousand dollars and he would have to have the difference between that and the price of the property if he was to complete the deal. He would go around to different people—he would ask me, for instance, and I would say, "No; I will not loan you \$6,000 on a house that is normally worth \$5,000," and the result is that he can not get the money. Nobody is going to loan money unless the loan is considered by him to be secure; that is, the value must be sufficient to provide security—first the security and next the rate of interest is considered. I believe in very many of our communities that same condition exists. I know that there are trust companies to-day that have money that they would be glad to loan on real estate if the people who wish to borrow it would be willing to accept a reasonable amount proportionate with the true value of the property, and I believe that is one of the conditions that has been overlooked throughout the country.

Senator CALDER. Have you not observed in the last two years a drift away from mortgage loans as compared with what it was five or ten years ago?

Mr. MCKEE. Yes; and I ascribe that to the surtax provision of the income-tax law. To escape the tax people prefer to put their money into tax-free securities.

Senator CALDER. The man with a large income, who before we had the income-tax law loaned at 5 per cent, loans at 2 per cent, and we have got either to do something like I propose here or we have got to exempt real-estate mortgages from taxation or reduce the tax.

Mr. MCKEE. Some inducement must be offered for money to flow into real-estate loans.

Now, Mr. Chairman, permit me to analyze this bill briefly. Turning to page 1, at the bottom of the page—

Senator CALDER. Before you get to that, you spoke of the high price of real estate and people refusing to make loans upon those properties. Of course, that is brought about through the high cost of building the houses?

Mr. MCKEE. Yes, sir.

Senator CALDER. People are not building houses to-day because of the high costs of material and labor?

Mr. MCKEE. Yes, sir; undoubtedly; of course, if the cost of building came down—

Senator CALDER (interposing). How about loans made last year on wool and hides, cotton, etc., on the high prices prevailing then?

Mr. MCKEE. The banks now are insisting upon statements being made this year by borrowers that will show their inventories based on present reduced prices, and they are watching their credits very closely.

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Senator HITCHCOCK. Those inventories will be very disappointing, will they not?

Mr. MCKEE. They will. I know that there are many banks throughout the country that are keenly alive to the situation, and the Federal reserve bank of our district has sent notices to the members of the fifth Federal reserve district saying that before any paper is accepted by them for rediscount it must be accompanied by a statement of inventories based on the present market value of the commodities.

Senator CALDER. You spoke of frozen loans. Are those not frozen loans on wool and cotton and hides?

Mr. MCKEE. Yes, sir; due to unusual conditions.

Senator CALDER. You have no frozen loans on real estate?

Mr. MCKEE. No; the aggregate of loans on real estate held by national banks is comparatively small.

Senator CALDER. And your bank, nor any other bank that you know of, has had any serious concern about that security?

Mr. MCKEE. No, sir; national banks that loan on real estate under section 24 are restricting loans to 50 per cent of the value of the property, which affords them ample margin, but there are not many such loans. Generally investors are not willing to accept such small loans as 50 per cent of value. They want more than 50 per cent of value.

Senator POMERENE. When you made that statement you meant it to apply to loans made by national banks?

Mr. MCKEE. Yes, sir.

Senator POMERENE. There is trouble in a good many of those places where they have those houses at these exorbitant prices that they have been selling at, etc., because a lot of men who were earning high wages are thrown out of employment, and they have this \$7,000 house that you spoke of with a \$6,000 mortgage on it.

Mr. MCKEE. Yes, sir; I know that.

Senator POMERENE. And that class of mortgages is a good deal disturbed?

Mr. MCKEE. Yes, sir; they are.

Senator CALDER. Will you not straighten that proposition out for me? You have a saving institution, of which you are an officer, here in Washington, solely for saving purposes, and you loan a large amount of your deposits to the people for homes?

Mr. MCKEE. Yes, sir.

Senator CALDER. What are the total deposits of your institution?

Mr. MCKEE. About \$900,000.

Senator CALDER. And you have loaned about what percentage of that?

Mr. MCKEE. About \$700,000.

Senator CALDER. How much real estate have you on your books that you had to foreclose?

Mr. MCKEE. None as yet.

Senator CALDER. So you had no trouble whatever and have not lost a dollar, nor has the strength and integrity of the institution been threatened in the slightest degree because of your mortgage business?

Mr. MCKEE. No, sir; because we have watched it very closely. We have made comparatively few loans during the past two years.

Senator CALDER. And those that you have made have been with an eye to the safety of the institution?

Mr. MCKEE. Absolutely so.

Senator CALDER. And I commend you for it, and every honest and honorable bank will do the same thing.

Mr. MCKEE. Now, if you will permit me, Mr. Chairman, I will analyze this bill briefly. With reference to section (24a) the bill provides:

That such permission shall not be granted to any national bank in a State the laws of which require a minimum capital for organization of a State bank having separate commercial, savings and trust departments, or any two of such departments, unless such national bank has the capital required by State law of State banks having such departments as such national bank proposes to establish.

Now, what about national banks that have not the required capital in which savings departments are already established? There are undoubtedly very many little banks in the southwestern part of the country that are organized with a capital of \$50,000, and that may be less than the States in which they are located require the State bank to have. Those banks have already established savings departments. What is going to become of them?

Senator CALDER. For my part, I am glad to have your criticism.

Mr. MCKEE. Of course, I am endeavoring to make it in a helpful and constructive way. The next question that comes up is the allocation of deposits, as to which I have already expressed my opinion.

Mr. PATON (interposing). You mean the allocation of capital?

Mr. MCKEE. I beg your pardon, the allocation of capital. The next is "And subject to such regulations, restrictions, and limitations as the said board may prescribe, any national banking association may establish and operate a separate savings department," etc.

Now, while that seems to be permissive, it is a question in my mind whether the Federal Reserve Board would not attempt to construe that as being mandatory. I do not know whether it would or not, but I would like to have that question clearly settled in my mind. It seems to be permissive.

Senator FLETCHER. In case they do, then what?

Mr. MCKEE. Then they would determine to what extent the national bank could lend its deposits in the savings department on real estate and invest in other securities; in other words, it would give them the power to legislate. I think if it is the intention of Congress to have those deposits segregated and invested in any particular class of securities, that Congress itself should determine the class of securities in which the deposits should be invested, and not entrust that power to the Federal Reserve Board.

Senator OWEN. Did the Federal Reserve Board draw this?

Mr. MCKEE. Yes, sir. That is my understanding.

Senator OWEN. Nearly all these boards extend their own powers.

Senator FLETCHER. It may be very difficult to specialize these various items in legislation. I can see some difficulty in that.

Mr. MCKEE. That is true, but take any State which has a law that provides for segregation and investment in a certain class of securities, and another State that has not that provision, and in the State that has not that law the Federal Reserve bank shall have

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power to make the law, and I contend that that is wrong in principle.

The next is the mandatory provision with regard to establishing and operating savings banks. I think the question of opening, establishing, and operating a savings bank should be left to the discretion of the owners of the bank or the board of directors of the bank.

Senator OWEN. You think it would depend upon the condition and environment of that particular institution rather than any particular rule drawn here in Washington in the Federal Reserve Board?

Mr. MCKEE. Yes, sir; absolutely. It may be that some people may want to put their money in a savings department, and there may not be any particular demand for real-estate loans in that locality, but the entire demand may be for commercial loans. Therefore, that bank should be permitted to meet the demand for loans in its particular locality, using its money for the best interests of the community.

Senator POMERENE. My recollection is that one inducement which made this committee recommend giving the national banks authority to make mortgage loans was to aid those national banks which were in agricultural regions, so that they might aid farmers, etc.; on the other hand, in industrial towns there were the building and loan associations which largely take care of such people.

The CHAIRMAN. You mean the savings banks in the East?

Senator POMERENE. Yes; savings banks of the East. In Ohio we have those loan associations in nearly every town, so that it seems to me that situation is somewhat different.

Senator OWEN. I think the need for increasing the accommodations available for real estate is indicated by a letter which I received from Oklahoma. It is from a very respectable man who stated that he had a \$4,000 farm loan which came due on a piece of land that was worth \$10,000 and he took the matter up with the loan company who held the loan and who made it seven years ago at a 6 and 2 rate of interest. He writes:

I was informed by this company that they would renew the loan, but that the rate would be 6 and 4 per cent and that they would not make it for less time than 10 years—

Senator POMERENE (interposing). What does that mean—"six and two?"

Senator OWEN. It refers to the 4 per cent running for the period of the loan—

By this you see I will be forced to pay a commission of \$1,800, which commission they require paid during the first three years of the loan, which makes my first three yearly interest payments as follows:

Six per cent on the \$4,000 will be \$240, and one-third of the \$1,800 commission, \$533.34, total annual payment, \$773.34.—

On a \$4,000 loan.

The CHAIRMAN. Where did you say that was, Senator?

Senator OWEN. In Oklahoma. He further writes:

Thinking perhaps that this company was an exception—

And this is the important feature that I call attention to—

I began to take the matter up with all the known commercial loan companies operating in this country, and to my surprise, I find that the same terms and rates are in use by all of them.

It is a damnable piece of extortion, and this country can not go on with that sort of practice. I think it only emphasizes the objection which I have heretofore raised to the high rates of interest fixed by the Federal Reserve Board, which I think were reprehensible in the highest degree. They have brought that practice into existence now all over this country.

The CHAIRMAN. Of course, that rate has nothing to do with any regulation of the Federal Reserve Board?

Senator OWEN. It is psychologically connected with it, and when they raised the rate to 7 per cent, the member banks of this country, with perfectly good security, raised the rate, and in penalizing the member banks by 15 per cent they made the country feel that they all had a right to charge 20 per cent on such a loan as this.

Mr. MCKEE. Turning now to page 6, section 2 of the bill:

Every member bank which maintains separate departments the assets of which are segregated and kept separate as if each department were a separate bank shall maintain separate reserve balances for each such department and shall keep separate and distinct the total reserves of each department from those of any other department; and whenever the reserve balances of any one department shall fall below the required amount the reserves of that department shall be deemed to be deficient, and such department shall be subject to the same penalties and taxes for such deficiency in reserves as if it were a separate banking institution.

Now, reading that in connection with the provision over here on page 4, beginning with line 19:

No national bank having separate departments shall receive in its savings department current funds subject to check or the deposit of checks, drafts, bills of exchange, or other items for collection or exchange purposes, or receive in any department deposits from any other department, except that in proper cases funds deposited or held in trust in the trust department awaiting investment may, subject to the conditions prescribed in section 11 (k) and under the regulations of the Federal Reserve Board issued thereunder, be deposited in the commercial or savings department.

That might cause the bank which has a separate savings department, and is required to replenish its reserve with the Federal Bank of its district, some trouble to make the transfer. As it is now, a national bank in this city, which has commercial deposits and savings deposits, is required to keep 10 per cent of its commercial deposits and 3 per cent of its savings deposits on deposit with its Federal reserve bank. Of course all deposit accounts are set forth on the general ledger—one is known as "Time or savings accounts," and another is known as "Demand or commercial." The first thing they do is to see that their savings deposit account is protected by the proper reserve, and if there is any deficiency to count that deficiency in their commercial deposit account and draw a draft or make a deposit or send a remittance to the Federal reserve bank to make the deficiency good.

Now, I think the procedure set forth in these two sections of the bill will be found to be difficult to observe by banks that have commercial and savings deposits, and I do not see the necessity for it, because if you keep a savings department on one side of your bank and a commercial department on the other side, it does not make any difference whether you keep a separate and distinct ledger for the two classes of deposits or put the deposits into the general ledger of the bank,

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just so long as you keep the amounts of the two kinds of deposits separate. There is a prohibition here that—

No national bank having a separate department shall receive in its savings department current funds subject to check or the deposit of checks, drafts, bills of exchange, or other items for collection or exchange purposes.

That might be construed—I do not say that it would—but it might be construed as preventing savings banks from receiving checks for deposit in a savings account, and there are a great many banks that do a large business of that kind. They have customers out of town who do not come to the bank, and they put checks in an envelope and send them to the bank. I think the true intent of this is that the savings bank shall not do the usual collection business such as the national banks do, but unless that is stated specifically it might be construed by the Federal Reserve Board to mean that the savings banks shall be restricted to the actual receipt of cash and shall not take anything else on deposit.

Senator CALDER. I do not construe that provision as you do.

Mr. MCKEE. I just want to call your attention to one other matter and that is all I shall have to say. I think it would be extremely unwise at this time to attempt to enact legislation of this kind for the reason that I believe it would result in the arbitrary and unnecessary transfer and withdrawal of a large amount of money that is at present loaned upon commercial credits, and we are proceeding now orderly and in a generally satisfactory way to reduce those credits held by the banks. Stuff is beginning to move—cotton, wheat, and other things are beginning to move, and in the course of a year or so the present condition may disappear altogether, and at that time I am certain that if this matter is brought up here, I do not believe there would be very much objection to the principle of the segregation of savings deposits, and to the principle of committing the national banks to loan larger amounts on improved and unimproved real estate than they are permitted or required to make at this time.

Mr. Chairman, if the committee desires I will leave these papers with it. Some of the letters are addressed to me, others are addressed to Mr. Mountjoy, secretary of the national bank division, American Bankers' Association. I thank you, Mr. Chairman and gentlemen.

(The letters and telegrams referred to above follow:)

MINNEAPOLIS, MINN.,
January 18, 1921.

Hon. KNUTE NELSON,
Senate, Washington, D. C.:

The banks composing the Minneapolis Clearing House Association and the St. Paul Clearing House Association in meetings held to-day passed resolutions opposing the passage of the bill known as Senate file 4721 regarding the establishment of savings department and segregation of banking capital, I have been asked to advise you in the name of both associations and to request your opposition to the passage of the bill.

J. S. PROMEROY,
Manager Minneapolis Clearing House Association.

MINNEAPOLIS, MINN.,
January 18, 1921.

Hon. KNUTE NELSON,
United States Senate, Washington, D. C.:

Council of administration of Minnesota Bankers' Association at meeting held to-day desires to enter its protest against adoption of Senate bill 4721 relative

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to savings department separation of savings deposits and restrictions as to investments of savings funds.

O. M. NELSON,
President Minnesota Bankers' Association.

MINNEAPOLIS, MINN.,
January 13, 1921.

EDGAR E. MOUNTJOY,
American Bankers' Association, Washington, D. C.:

Executive council Minnesota Bankers' Association in session here to-day, and the clearing houses of Minneapolis and St. Paul, who have to-day given the matter their consideration are all opposed to the proposed amendments to Federal reserve act, your telegram January 12. Personally I believe proposition much involved, and object to mandatory provisions.

EDGAR L. MATTSON.

OMAHA, NEBR.,
January 13, 1921.

EDGAR E. MOUNTJOY,
*Deputy Manager National Bank Division, American
Bankers' Association, Washington, D. C.:*

Telegram received relative to bill before Senate. Submitted same immediately to our clearing-house association, which voted unanimously against it. I can not see any advantage to be gained either for banks or for the public by the passage of this bill.

WALTER W. HEAD.

DAVENPORT, IOWA,
January 14, 1921.

EDGAR E. MOUNTJOY,
Washington, D. C.:

Present authorization to establish savings department in national banks is quite satisfactory. Compulsory application of capital between commercial and savings departments would be unwise, cumbersome, and would greatly reduce the ability of national banks to satisfactorily serve commercial interests. Some liberalization of present provision regarding loans on improved city property might be desirable. Present authority to make farm loans is satisfactory to banks of our size. Any proposed amendments should be optional.

A. F. DAWSON.

SAN FRANCISCO, CALIF.,
January 14, 1921.

EDGAR E. MOUNTJOY,
*Deputy Manager National Bank Section,
American Bankers' Association, Washington, D. C.:*

Proposed bill mentioned in your wire of 12th is similar to California State Bank Act, which seems to be working quite satisfactorily. However, the Federal Reserve System is meeting the needs of the country very acceptably at the present time, and I believe it inadvisable, therefore, to agitate or endeavor to enact any legislation affecting our national banking system under existing conditions.

FIRST NATIONAL BANK OF SAN FRANCISCO.
GEORGE A. KENNEDY, Vice President.

MINNEAPOLIS, MINN.,
January 13, 1921.

AMERICAN BANKERS' ASSOCIATION,
Washington, D. C.:

Council of administration of Minnesota Bankers' Association at a meeting held to-day desires to enter its protest against adoption of Senate bill 4721 relative to savings department, separation of savings deposits, and restrictions as to

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investment of savings fund. This refers to wire of Edgar E. Mountjoy to Edgar L. Mattson, vice president Midland National Bank.

O. M. NELSON,
President Minnesota Bankers' Association.

CHATTANOOGA, TENN.,
January 13, 1921.

EDGAR E. MOUNTJOY,

Secretary American Bankers' Association, Washington, D. C.:

The present bill before Senate authorizing Federal Reserve Board to permit national banks to establish savings departments would in our judgment do harm instead of good. In the smaller towns and cities throughout the United States they already have savings departments, and they have so many restrictions now that it is nearly impossible for them to acceptably serve the community, and if such a law as suggested should be administered technically, as most of the laws concerning banks, it would be injurious instead of helpful to the public in the smaller places. It would be almost impossible for the small country banks to comply with the terms of the bill. Congress ought to take from some of the executive departments powers they already have instead of constantly giving them more.

T. R. PRESTON,
President Hamilton National Bank.

ST. LOUIS, Mo., *January 13, 1921.*

EDGAR E. MOUNTJOY,

Deputy Manager National Bank Division

American Bankers' Association, Washington, D. C.

Your wire as to the Calder bill, according to my interpretation, makes it compulsory for a national bank having savings and commercial and trust departments to apportion its capital stock between these departments and to separately invest and account for the resources accumulated through respective department. To the bill as drawn I am strongly opposed. The purpose apparently is to equalize the opportunities of national banks with those of State banks and trust companies, but in giving wider latitude to national-bank operations the bill handicaps national banks by this apportionment of capital. We are very successfully seeking savings and trust business on the strength of the great protection offered through our large capital and surplus. This bill will detract from the distinctive advantage we enjoy in that respect; it will in fact place us at disadvantage, because trust companies here are not required to segregate their capital. We think the underlying purpose of the bill would be served by an amendment which simply permitted national banks to invest funds accumulated through savings and trust departments in such securities as are permissible for State banks and trust companies. If it is proposed to give national banks this advantage there is no need to offset it by the proposed apportionment of capital.

JOHN G. LONSDALE.

WARREN, PA., *January 15, 1921.*

EDGAR E. MOUNTJOY,

Deputy Manager, A. B. A. National Bank, Washington, D. C.:

Calder bill carefully considered. Pennsylvania State banking laws do not extend sufficient privileges to make a change attractive to us. We strongly favor Federal reserve act revision and national-bank control, which will make membership in the national-bank system more attractive and indispensable to State banks rather than legislation which is indirectly designed to force State banks into a national-bank system. We favor for national banks, and preferably for all banks in the Federal reserve system, conservative restrictions, as now. For all banks in the Federal reserve system conservative restrictions, as now applied to national-bank investments in securities rather than national banks being permitted to lower their standard of investment to those provided by all of the different States, which, in many cases, are far from conservative. We strongly urge you to oppose the bill and thank you for submitting it to us for consideration.

N. C. SILL, *Cashier Warren National Bank.*

DALLAS, TEX., January 17, 1921.

EDGAR E. MOUNTJOY,
Washington, D. C.:

Yours, 12th; in our opinion there should be no apportionment of capital between commercial and savings department; there should be maintained separate and distinct departments for handling commercial and savings and investments of savings funds; should be limited to character as suggested in your message. We see no reason whatever for capital division.

NATHAN ADAMS.

BALTIMORE, MD., January 17, 1921.

E. E. MOUNTJOY,
Washington:

Executive committee, Baltimore Clearing House, unanimously opposed to Senate bill 4721; believed so complicated as to cause much confusion and we do not believe it offers compensating advantage.

WALDO NEWCOMER, President.

THE SECOND NATIONAL BANK OF BOSTON,
Boston, Mass., January 14, 1921.Mr. EDGAR E. MOUNTJOY,
Deputy Manager, A. B. A., National Bank Division,
Washington, D. C.

DEAR SIR: Acknowledging yours of January 12, addressed to my son, I regret that he is absent on business until next Tuesday, and therefore it will not be possible to secure an opinion from him in regard to the bill intended to empower the Federal Reserve Board to authorize national banks to establish separate savings departments.

I might add that my personal feeling is that at least in New England we have so many well-managed mutual savings banks that the necessity for this permission does not seem obvious to me.

Very truly yours,

THOMAS P. BEAL, President.

THE FIFTH-THIRD NATIONAL BANK OF CINCINNATI,
Cincinnati, Ohio, January 15, 1921.Mr. EDGAR E. MOUNTJOY,
Deputy Manager, A. B. A., National Bank Division,
Washington, D. C.

MY DEAR MR. MOUNTJOY: Your letter of the 13th inst., in which you inclose copy of bill by Senator Calder, received. This from a cursory examination appears to me to be an unnecessary piece of legislation, and as such I would not be disposed to favor its passage.

I do not believe under the present conditions that the passage of the bill would provide any additional funds to correct the housing situation, inasmuch as there is already a great strain on the credit facilities of the national banks.

Very truly yours,

C. A. HINSCH, President.

THE COMMERCIAL NATIONAL BANK,
High Point, N. C., January 15, 1921.Mr. EDGAR E. MOUNTJOY,
National Bank Section, Washington, D. C.

DEAR MR. MOUNTJOY: Your letter of the 13th is at hand, containing copy of bill S. 4721, introduced by Mr. Calder in the Senate of the United States.

I have read this carefully and must say that there is one clause in this that I think might be quite objectionable—"That the Federal Reserve Board may, in its discretion, require any national bank to establish and operate a separate savings department in accordance with the provisions of this act, and may prohibit any national bank from making loans on real estate, except through a separate savings department."

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As you know, at present our savings accounts are segregated from our active accounts, but to establish and operate a separate savings department from our other business would entail additional expense and would complicate business, and, as I see it, without corresponding benefit. I trust you can prevail on the committee to cut this out if the bill should pass.

Yours, very truly,

J. ELWOOD COX, President.

AMERICAN NATIONAL BANK,
Richmond, Va., January 17, 1921.

Mr. E. E. MOUNTJOY,

Deputy Manager, A. B. A., National Bank Division,

Washington, D. C.

DEAR MR. MOUNTJOY: I have your favor of the 12th instant, which I have been unable to answer until to-day. I trust it will reach you in time to be of service. I have sent copy of it to Senator Owen of the committee.

Yours, very truly,

OLIVER J. SANDS.

AMERICAN NATIONAL BANK,
Richmond, Va., January 17, 1921.

NATIONAL BANK DIVISION, AMERICAN BANKERS' ASSOCIATION,

Washington, D. C.

DEAR SIRS: I take pleasure in complying with your request in giving my personal views with reference to Senate bill 4721.

National banks now maintain savings departments, and with the exception of the provisions of the Federal reserve act relating to reserves, and the rulings of the Federal reserve board as to the method of withdrawals, notices, etc. the funds of these departments are handled, invested, and secured as all other deposits of the bank.

The purposes of Senator Calder's bill are—

First. To enable the national banks to compete with State chartered banks in the matter of investment of such proportion of their funds as may be segregated under this act.

Second. To enlarge the amount of money, which may be available for real estate transactions, and thereby make it possible for national banks to serve the farmers and home buyers to a greater extent than at present permitted.

Third. To increase the membership in the Federal reserve system by giving a wider range to the operations of the national banks, and thereby make it more attractive to State and savings banks to enter the system.

I have been hopeful that there would be no material amendments or changes made in the Federal reserve or national-bank acts until we have had a few years under normal conditions (if there is such an "animal"). National banks should be allowed to invest a reasonable portion of their savings deposits in real estate loans. It may be suggested that this would increase the frozen or long time slow assets of a national bank. I doubt this, as my experience for a great many years is that good real estate loans are not as unliquid as many of the loans now permitted, and this bill might go a little further and restrict loans upon stocks and the purchase of bonds and securities. I think that the objects of the bill could be attained without the requirement of so much machinery and bookkeeping. This is unnecessary and will prevent banks from availing themselves of the privilege because of additional expense, etc.

It may be charged by opponents of this bill that there is not enough money to take care of the commercial business of this country. This may be true at the moment, but our present condition is brought about by the confiscation by the Government of all our banking resources to finance \$25,000,000,000 of fixed Government loans. It was certainly not the expectation of the framers of the Federal reserve act that the gold held by the commercial banks of the country should be taken for this purpose, and 40 per cent in gold required for every dollar of currency issued against Government bonds. This has been done with great profit to the Government and great loss to the member banks, and there seems to be nothing to do but wait until time works the situation out, or some representative of the people insists that if for no other reason than good policy the banks should be relieved of this burden without further loss.

When this situation is cleared and Government bonds are absorbed by investors, or a material reduction in required reserve is made upon currency secured by Government bonds, there should be an abundance of reserve money in this country to carry on all our commercial business as well as the real estate business authorized by this act.

Banks should be allowed to use their own discretion as to whether they will act under this bill or not. Local conditions governing the business of the banks should be the controlling motive—therefore, I think that the provision on page No. 5, giving the Federal Reserve Board the power to require banks to act under this bill should be stricken out.

Yours, very truly,

OLIVER J. SANDS, *President.*

THE FIRST NATIONAL BANK OF YORK,
York, Pa., January 17, 1921.

Mr. EDGAR E. MOUNTJOY,

Deputy Manager, A. B. A., Washington, D. C.

DEAR SIR: We have your favor of the 13th instant inclosing bill (S. 4721). The bill as a whole we are very much opposed to.

In this city of York our trust companies are amply able to take care of all demands for real-estate loans, and should we have to segregate our so-called savings money in the banks of York it would practically put our merchants and manufacturers out of business, as the bulk of our banks' deposits are made up of so-called savings accounts.

Why anyone would want to put the banks to the additional expense and trouble of segregating savings from our general banking business I can not see.

Some years ago at the time the postal-savings bill was passed there was an attempt made by the American Bankers Association to present a bill to Congress to segregate savings accounts in the banks of the United States. The Pennsylvania bankers held a meeting at the Bellevue Stratford Hotel, Philadelphia, Pa., to discuss the proposed bill. Savings in Pennsylvania were over \$500,000,000 at that time. I attended this meeting and made the statement that if this bill went through it would absolutely ruin our city, as we would have to withdraw our loans to merchants and manufacturers to put it into bonds and real-estate loans, and the same condition exists to-day.

I trust the American Bankers Association will use its utmost efforts to defeat the proposed bill. I have sent the copy of the bill to the president of the local chamber of commerce and have asked him to take it up with the chamber of commerce and get in touch with our Congressmen and our Senators from Pennsylvania.

Respectfully yours,

W. A. KEYWORTH, *President.*

FIRST NATIONAL BANK OF CHEYENNE,
Cheyenne, Wyo., January 12, 1921.

Hon. GEORGE P. MCLEAN,

*Chairman Committee on Banking and Currency,
United States Senate,*

Washington, D. C.

DEAR SIR: Your letter of the 8th, inclosing copy of a bill to govern savings departments of national banks, is received.

For your information, national banks all over the country are now operating saving departments and the inclosed measure, if adopted, would work a very decided hardship upon them to meet the requirements of the bill. The necessity for these restrictions and regulations has not yet arrived, and we should say that in times like these it would be wise to let well enough alone and not rock the boat.

Yours, truly,

A. D. JOHNSTON, *Cashier.*

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MELLON NATIONAL BANK,
Pittsburgh, Pa., January 14, 1921.

Hon. GEORGE P. MCLEAN,
United States Senate,
Washington.

MY DEAR SENATOR: I beg to acknowledge receipt of your letter of the 8th instant, inclosing a copy of Senate bill No. 4721, to amend section 5236 of the Federal reserve act, and note your request for our views on this proposed legislation.

In reply I beg to say that at the present time, as a national bank, we are receiving deposits of funds payable at fixed future dates and also funds subject to 30 days' notice of withdrawal, for which we pay the ruling rates of interest for time funds. This course appears to be justified by the Federal reserve act and its amendments and we are obliged to carry a reserve thereon of 3 per cent only; such funds are not earmarked in any way, but are merged with our general deposits and are used to make loans to our manufacturing and merchant customers and to buy commercial paper and investment securities. This method of handling these deposits is really quite satisfactory to us, and unless it transgresses the law we should much prefer to continue it.

The proposed law makes the earmarking of a certain portion of the paid-up capital and the surplus and also of the securities in which savings deposits are invested obligatory and would perhaps make our present practice unlawful. In that latter event we might not wish to continue to receive time money; the restrictions on investments and the added expense of conducting a practically new organization might, in our opinion, overbalance the benefits derived from the use of such money.

Yours, very truly,

W. S. MITCHELL, Vice President.

CENTRAL SAVINGS BANK,
New York, January 19, 1921.

Hon. GEORGE P. MCLEAN,
Chairman Committee on Banking and Currency,
United States Senate, Washington, D. C.

DEAR SIR: We were duly in receipt of your letter of 6th instant, but owing to the rush of business at this time of year we have been unable to reply sooner.

As far as our institution is concerned, we would be decidedly opposed to the measure which has been proposed for various reasons, the principal one being that under our present State laws no institution except a savings bank is allowed to use the word "savings" in connection with its business.

Furthermore, the law provides that no savings bank in this State shall do business in the same room with a business bank, or in a room connecting therewith.

Such a law as is proposed in the measure to which you call our attention would be in direct opposition to these conditions of our present law, and also, inasmuch as all the savings banks in the State of New York are mutual institutions, i. e., operating without capital stock or profit in any way to the trustees, we feel that nothing should be done that would in any way tend to disturb the business affairs of these institutions.

One of the objectionable features of the proposed bill is lack of mandatory restriction for investment of deposits.

Considering that a large proportion of the profits of national banks are disbursed as dividends to stockholders, we deem it proper to say that had the mutual savings banks disbursed one-half of their profits in excess of interest paid to depositors there would probably not be to-day, at present market value of investments, any solvent mutual savings banks.

In any event, we sincerely hope that before such a measure should be adopted, or even acted upon favorably by your committee, that the savings banks of this State, and also mutual savings banks located in other States, be given a hearing in order that we may set before you our views regarding the subject.

The secretary of the Savings Banks Association of the State of New York is Dr. H. H. Wheaton, whose address is No. 56 West Forty-fifth Street, New York City, and he could arrange for representatives to appear before your committee from our association should you desire that this be done.

Very respectfully, yours,

A. KOPPEL, Treasurer.

Senator CALDER. I am under the impression that in New York City none of the national banks have savings deposits; is that true?

Mr. PATON. I think some of them conduct savings deposits. I can not specify the institutions, but it is my impression that some of them do because I have had the question up as to whether they had the right to use the word "savings."

Senator CALDER. I do not know of any national bank in New York City that has a savings department.

Mr. PATON. I do not know of any personally.

Senator CALDER. When I introduced this bill it was not for the purpose of helping any condition in my own city, but the housing condition is pretty bad and my purpose in this bill is to permit national banks with savings departments to loan 50 per cent of those savings deposits on real-estate mortgages under proper security and with proper restraint, and at nearly every place where I have inquired the Federal banks throughout the country that have savings deposits, I find concur in the idea.

Mr. PATON. I do not think there will be any widespread objection to that principle, but it is simply the machinery that is going to put it into operation.

Senator POMERENE. Can you tell me to what extent the national banks in the larger cities make loans on real estate mortgages?

Mr. PATON. I can not answer that question because I am not familiar with the practice of these large national banks.

Senator CALDER. When I was in Denver I asked the president of a leading national bank there what were the total savings deposits of the national banks of Denver, and he said \$50,000,000. I asked him what portion of that was loaned on real-estate mortgages and he said not a dollar; that it was placed on savings, on long-term deposits of the people and was put out in commercial business. There is a great housing shortage in Denver, and the people want money to build houses. I want it to go into the record that this witness has said that he does not know of a savings bank in this city—I want that forcibly put into the record, that he has not on the books of his bank to-day a single piece of real estate that he had to foreclose on, and there is no frozen real estate in any of the banks of the District of Columbia, or any other part of the country as far as he knows.

Senator POMERENE. When did you organize your savings bank?

Mr. MCKEE. About 16 years ago. Let me qualify that by saying that there are two or three that we have had trouble with, in getting the interest paid up and in getting it ultimately paid. They are only small in amount, about \$15,000, and we are trying now to get a settlement without recourse to foreclosure, and I believe we will.

Senator CALDER. And as far as you know, the loans made on real estate mortgage by the savings department of the national banks are not troubling the officers of the national banks to-day?

Mr. MCKEE. As far as I know, that is true.

Senator CALDER. And the frozen loans are those high loans made on commodities?

Mr. MCKEE. Yes, sir; due to the unusual conditions with which we are confronted to-day.

Senator CALDER. So the high cost of housing has not concerned them so much in the matter of securities as the other high loans?

Mr. MCKEE. That is true.

Senator POMERENE. Is this not also true, that in the case of the savings banks, or building loan associations, a foreclosure is only begun as a last resort?

Mr. MCKEE. Yes, sir.

Senator POMERENE. For the sake of the institution itself, as well as for the sake of the borrower?

Mr. MCKEE. That is true.

Senator POMERENE. They seek to adjust these matters in some way that will be equitable and save not only the bank expense but save the borrower as well?

Mr. MCKEE. That is true.

Senator POMERENE. If the borrower gets into an embarrassed position?

Mr. MCKEE. That is true. I have sold two pieces for borrowers to avoid that.

Mr. Chairman, Mr. Walson, who is the president of the Liberty National Bank, of Washington, D. C., and has an active savings and commercial department, would like to be heard for a few minutes.

The CHAIRMAN. Very well.

STATEMENT OF MR. GEORGE O. WALSON, PRESIDENT LIBERTY NATIONAL BANK OF WASHINGTON, WASHINGTON, D. C.

Mr. WALSON. Mr. Chairman and gentlemen, I shall not tire you with any extended remarks, for the reason that in your interrogations you have brought out some of the points I had in mind. It is possible that I might throw some little light, through practical experience, on the points that Senator Calder has mentioned, particularly in regard to real-estate loans. My institution is a young national bank—

Senator POMERENE. Please give the name of it.

Mr. WALSON. The Liberty National Bank of Washington. Four years ago the Liberty Savings Bank was organized especially for the purpose of serving small depositors, with a view to making real-estate loans, insuring the lives of the borrowers, but finding, upon the organization of that bank, that such institutions were rather a new proposition in Washington the thought occurred of nationalizing as a national savings bank.

In reply to an application to the Comptroller of the Currency for the name of the Liberty National Savings Bank we were told, informally, that that was a very delicate subject; that the banking commissioners and banking departments of every State in the Union would resist with great force any move on the part of the Comptroller of the Currency to allow the word "savings" to be incorporated in the title of a national bank, and while it had been done in one or two instances through special legislation, it was deemed inadvisable. Whereupon we nationalized our bank with the thought in mind, practically as provided in this bill, without the apportionment of the capital, but with segregation of deposits for the purpose of investing in secured loans and bonds, and at present 75 per cent of deposits are savings and are so invested. The principle of investment for the protection of savings deposits was faithfully carried out, with the result that it curtailed the operation of the bank among

the business borrowers and prevented us from meeting their needs through our desire to secure absolute security for every dollar of the savings deposits.

We found that the limitation of 50 per cent of the valuation of a piece of property, and a limitation of one year on the loan, absolutely precluded any real-estate loans being made, although we had money which we were willing to loan on real estate to prospective real-estate buyers and home builders, but not \$1 has been applied for nor discussed when the information was given as to the conditions under which the loan could be made.

Our thought is that if we could have made these loans we would have saved considerable loss in depreciation in securities which were bought to employ our funds, it being impossible to make a single real-estate loan. We also went in the open market and bought collateral loans. We sent money to New York correspondents for the reason that we could not make the character of loans that we desired here in Washington. We are brought to the point now, and as practical banking men, with a desire to serve our community, and I may say, incidentally, that we have served it indirectly through the commercial department, in loans made to building and loan associations, and I would emphasize that point, Mr. Chairman, with respect to your remarks as to the helpfulness on the part of banks, that we have helped. In Washington to-day there is probably one million to one and a half millions loaned to building associations at the lowest rate of interest.

Senator CALDER. Do you mean that the banks have loaned?

Mr. WALSON. The banks have loaned to these associations, which incidentally accounts for the action of their joint association in agreeing to loan money at the rate of 6 per cent to prospective home builders and buyers.

Senator CALDER. What rate do you charge now?

Mr. WALSON. We charge them 6 per cent.

Senator CALDER. Then loan it out at 6 per cent, do they?

Mr. WALSON. They loan it out at 6, but as a matter of fact, with their plan of installment payment, it returns them a somewhat larger rate than 6 per cent.

Senator POMERENE. For what length of time do you make those loans?

Mr. WALSON. For three months, but which means, so far as the local bank is concerned, renewable at the pleasure of the borrowers.

Senator POMERENE. In that respect you are making substantially what might be called a commercial loan?

Mr. WALSON. We call that a commercial loan.

Senator CALDER. You loan to the building associations at a stipulated sum and take their note for it?

Mr. WALSON. Plain note.

Senator CALDER. Do you mean that you require the board of directors to pass a resolution?

Mr. WALSON. Yes, sir; the board of directors pass a resolution authorizing their officers to borrow the sum of say \$100,000 from banks, or so much thereof as may be necessary, and we are glad to make those loans.

Senator CALDER. Do you require them to deposit with you an assignment of the mortgages to secure you?

Mr. WALSON. Absolutely not. There has never been a lien of this kind in our possession, and we have a situation which seems inconsistent. In my institution, after nationalizing, the national bank examiner reports to my board of directors that we are carrying unlawfully real estate loans—

Senator POMERENE. Carrying what?

Mr. WALSON. Carrying unlawfully real estate loans which were not made under section 24. It can not be helped because we carried them over, but they were made with great care. They are the best line of investment we have.

Senator CALDER. That is what I am trying to do, to prevent you from violating the law, and no more.

Mr. WALSON. We are gradually liquidating those loans, and it brings us to this position—we are compelled to say to our borrowers, "Your loan must be taken up."

I did not intend to dwell upon that point. My intent was to dwell more on the machinery proposed by which a desired condition is to be attained, but on hearing your remarks I felt that I should express, so far as a banker could, my ideas with respect to the aim of the bill in the matter of real estate loans. I have desired to make these loans, and my feeling and intent is to help the small man. I left a large commercial bank for the purpose of establishing a savings institution, as I have heretofore stated, with the special feature of a home loan, with life insurance for the borrower a feature.

With the conditions existing at present it would appear to me that the intent and purpose of this bill might be reached by amendment of section 24, as suggested by Judge Paton, by which you could allow a national bank to make these loans.

Senator POMERENE. That is, you mean loans in larger part of valuation?

Mr. WALSON. Larger part of valuation, and not be restricted to a one-year limitation.

Senator CALDER. When you say you make loans on the larger part of valuation, did you not intend to refer to the larger portion of your deposits?

Mr. WALSON. No, sir; I meant larger than 50 per cent of the appraised value. It now requires the pernicious system of second trusts to go along with a loan rather than allowing an honest well-intentioned man 60, 65, or 70 per cent of the appraised value of his property—as the case may be.

Senator POMERENE. What commissions are usually charged on second-trust loans?

Mr. WALSON. Commissions on second trusts have varied from 3 to 40 per cent—under my observation.

Senator CALDER. How can any man build a home under those conditions?

Senator POMERENE. I may say—and I say it with regret for my own State—that I find some of these banks are being organized to deal in second-mortgage loans and are making enormous profits.

Mr. WALSON. The inducements are so great in the way of profit that there has been a great deal of money loaned in Washington, but not by banks. I have found that while some of the loans we make on plain notes may go into second trusts, they do not enter the banks. There has never been such an enormous amount of second-

trust paper in existence in Washington as we find to-day. Collection departments in banks are clogged with them. We find people are borrowing money at 40 per cent of the appraised valuation of property on first trusts, and, perhaps, there will be another 40 or 45 per cent in a second trust.

Senator POMERENE. Is that on residence property?

Mr. WALSON. That is on residence property mainly.

Senator CALDER. Mostly little homes?

Mr. WALSON. Yes, sir. Now, if you could change conditions under which the national banks may make real estate loans so that they will not be restricted to one year, I think it would be very desirable.

If you will allow me, I would like to give you an actual, everyday experience. I have in my bank a loan of \$10,000 made on a prime first trust, a collateral loan payable on call. In this particular instance the customer is also a commercial borrower. Our limit is \$27,500. This loan bears 6 per cent interest, and the collateral is regarded as personal security; he owns the trust. That was his investment. He needed money and used his collateral. He comes in and borrows \$10,000 in regular course—he is a business man—making total line \$20,000. Bear in mind that \$10,000 amply secured the first charge against his line. He can only borrow \$7,500 additional in any shape or form. He now comes to us and states, "My home, worth \$60,000, has on it a maturing-first trust of \$15,000, and the loan agent tells me it can not be renewed for less than three years and I must pay 7 per cent interest on the renewal. My residence is in a fashionable and high-priced section of Washington. I must pay a commission. Now, you are my banker, and I wish you to take care of that for me."

We are confronted with this situation: He already has a line of \$20,000 and therefore it is impossible for us to do anything for him, except under subterfuge. We might have his office boy execute a note for \$15,000 and take up this \$15,000 trust, carrying it as collateral, and to all appearances the office boy is the actual owner of the note. There is the temptation that confronts the banker.

Senator CALDER. That house you say is worth \$60,000?

Mr. WALSON. Yes, sir.

Senator CALDER. If you could do so under the law you would be glad to loan him under mortgage at 6 per cent. \$25,000?

Mr. WALSON. I would.

Senator CALDER. And that is what I am trying to accomplish.

Mr. WALSON. I merely cited that as an illustration. There is a borrower I could serve to a purpose. The man wants that money for one year. The broker refuses to make renewal for less than three years, and I can not make him that loan because it would be an excess line: he wants \$35,000 line when our limit is \$27,500.

What I am trying to bring out is that it appears that this bill provides a very cumbersome piece of machinery, where it might be simplified by a modification of section 24, and I am sure, as Mr. McKee has stated, that it would not be objected to by bankers throughout the United States, regardless of the character of their institution.

Senator POMERENE. Will you just state in a concrete form what your modification would be?

Mr. WALSON. My modification would be to allow, first, an extension of the period for which a real estate loan might be made.

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Senator POMERENE. To what limit?

Mr. WALSON. My limit would be for three years. Secondly, an increase of the amount as borne to the appraised valuation of the property.

Senator POMERENE. To what extent?

Mr. WALSON. I should say to the extent of 65 per cent.

Senator POMERENE. When you say appraised value, do you mean the appraisement which your institution would make, or do you mean the assessed value?

Mr. WALSON. I would say that necessity compels an appraisal to be made by our own institutions, and I might add if conditions were different in the appraisal by public officials, if men were chosen for those positions who were thoroughly conversant with the valuation of real estate, and we could depend on them just as we depend upon the mercantile reports or on the security market reports, that we could simplify the operation so that what now appears to be a very cumbersome, laborious, and formal proposition in the consideration of a loan, it could be very much simplified, and we could deal with real estate somewhat as we deal with securities.

Senator POMERENE. I simply asked the question in order to make clear your position. I think if I were in your bank I would prefer to trust to the judgment of the men under the loan committee or the discount committee.

Mr. WALSON. We would call that the appraisal committee.

Senator POMERENE. Well, the appraisal committee. I would rather trust that committee than the judgment of some man who might be appraising for taxation purposes.

Mr. WALSON. That would be my idea, that our own appraisal committee examine the property and report to the bank, and I would suggest in helping the small-home owner to allow a renewal privilege, provided a certain proportion of the loan had been liquidated at the end of three years.

Senator CALDER. The savings banks in New York are allowed by the committee to loan 60 per cent of the appraised valuation of the property fixed, of course, as Senator Pomerene very properly states, on the appraisal of the bank's own officers. There, I find, the savings banks allow a loan to run along indefinitely without renewal, provided the security still continues and that the man who borrows the money keeps his taxes on the property up. Mr. Walson, what is the amount of the deposits in your bank?

Mr. WALSON. The deposits are \$1,200,000.

Senator CALDER. Of that sum, how much represents savings deposits?

Mr. WALSON. \$838,000.

Senator POMERENE. That is a rather unusual proportion, is it not?

Mr. WALSON. That is an unusual per cent, but my bank was nationalized in March, 1920, and savings deposits continue to grow. The checking accounts, called commercial deposits, represent a new department.

Senator CALDER. I find in the national banks west of the Mississippi River, where they have savings departments, the savings deposits are about equal the commercial deposits. How much money have you loaned on real estate mortgages?

Mr. WALSON. Since the bank became a national bank, now, we have made no loans for the reason that I could not find borrowers who were willing to accept 5% per cent on the valuation of the property and a limitation of one year for the duration of the loan. It did not serve their purpose.

Senator PARSONS. Sixty-six per cent, or 6% per cent, Mr. C, and you universally would it not?

Mr. WALSON. Very much, indeed, and an extension of the period for which loans may run, and, as I have said, some allowance for a renewal at maturity in the event the borrower has liquidated a fair amount of the original loan.

Senator CALDER. Do I understand that you nationalized your bank, which had been previously a savings bank?

Mr. WALSON. Yes, sir.

Senator CALDER. Is there quite a large amount of your deposits loaned on real estate mortgages?

Mr. WALSON. As a savings bank?

Senator CALDER. Yes.

Mr. WALSON. Comparatively little of the deposits, for the reason that at the period in which we were operating--the bank was started in 1917--there appeared but little demand for real estate loans. The building boom, or the urgent necessity for houses, had not appeared at that time.

Senator CALDER. It has been in the last two years, has it?

Mr. WALSON. Yes, sir.

Senator CALDER. Now, of the \$800,000 of savings deposits, what portion of that have you loaned on real-estate mortgages?

Mr. WALSON. I think in our bank at the present time, about \$1,500; just a remnant of the savings bank loans, because we contemplated this move 8 or 10 months before it was actually made, and during that period we made no real estate loans.

Senator CALDER. So, as a national banker, with a savings department in your bank, you would welcome legislation that would permit you to loan 50 per cent of your savings deposits on real estate mortgages?

Mr. WALSON. I would.

Senator CALDER. So that, if that is my purpose in introducing this bill, you are in full sympathy with that idea?

Mr. WALSON. I am.

Senator CALDER. But you object to the machinery by which it is to be accomplished?

Mr. WALSON. That was about the thought I had; that it was a rather cumbersome method of accomplishing it.

Senator CALDER. Do you think that a national banker with large savings deposits, if he was permitted to loan on bonded mortgages 50 per cent of his deposits, or could loan his money as he felt disposed, would loan money on bonded mortgages if he had attractive opportunities to loan on wool and cotton and hides and other things that offered higher rates of interest?

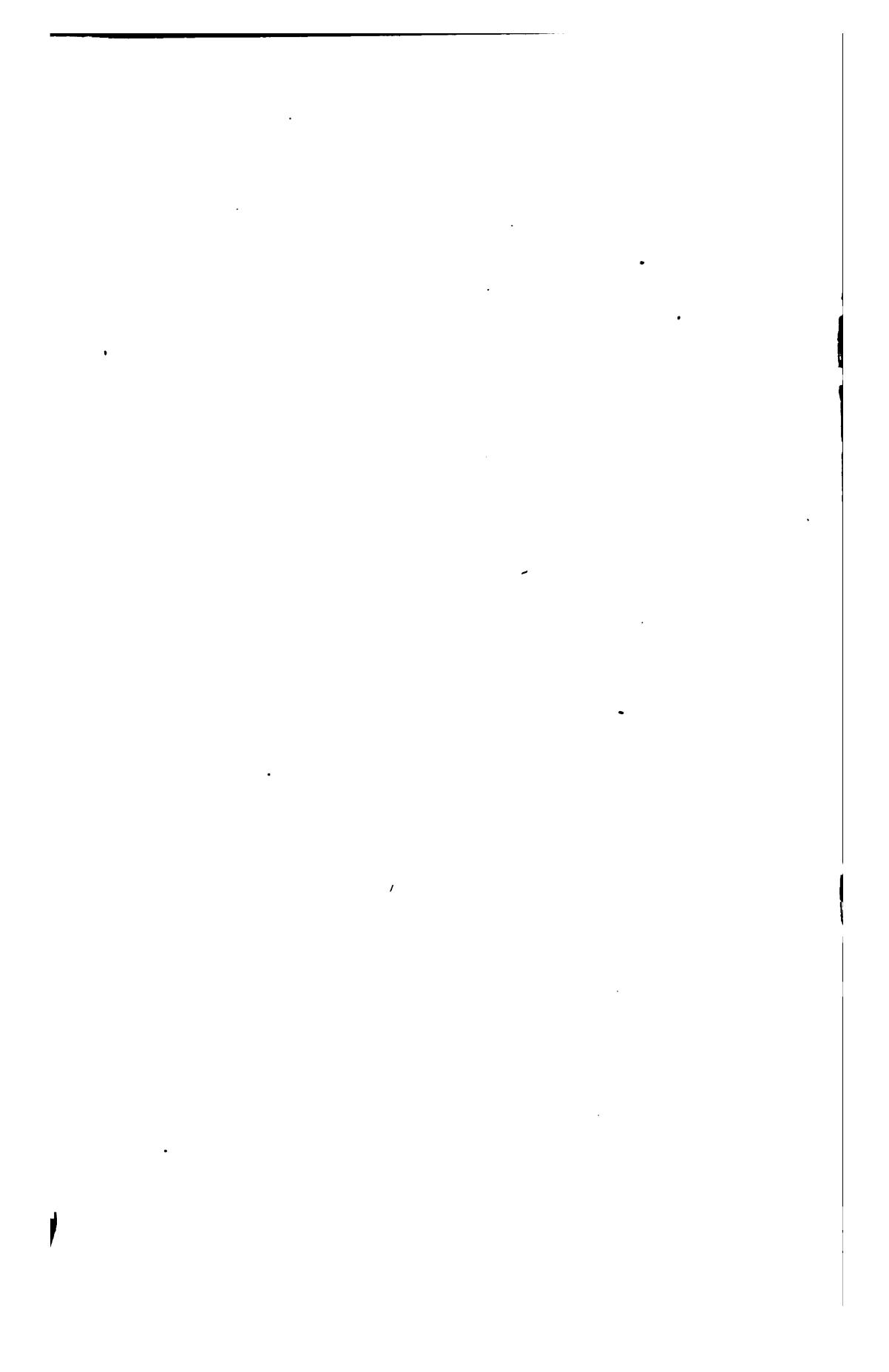
Mr. WALSON. I believe the average banker is inclined to listen to the needs and consider the conditions existing in his particular locality, and I find, when I get close to them, that the average banker

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particularly encourages the owning of a home. He has his weaknesses as well as other men, and we find that through legislative restrictions we have been inclined to do things that perhaps were not strictly in accordance with our own convictions, such as suggesting to would-be real estate borrowers, and corporations, perhaps, that instead of offering us a real-estate loan they proceed to have a bond printed in elegant style and call it a first-mortgage bond, which, under the law, we are permitted to buy, and which we have repeatedly done.

Instances have occurred in our city where real-estate loans have been suggested to a banker, and, knowing he could not legally make such real-estate loan, a company is organized, bonds issued, and bought by banks to be carried as investments. This has been done in a large number of cases, as elsewhere. Of course, that would not apply so much to the individual home owner, but it would apply to the borrowing of a sum of \$100,000; it might happen that a corporation, desiring to erect a plant, instead of going to a real-estate man would come to a national bank, and finally the bank becomes the owner of their bond. I thank you, Mr. Chairman and gentlemen.

The CHAIRMAN. The committee will now adjourn.
(Whereupon, at 1 o'clock p. m., the committee adjourned, to meet on call of the chairman.)



ESTABLISHING SAVINGS BANK BRANCHES OF NATIONAL BANKS



HEARINGS

BEFORE THE

COMMITTEE ON BANKING AND CURRENCY
UNITED STATES SENATE

SIXTY-SIXTH CONGRESS

THIRD SESSION

ON

S. 4721

A BILL TO AMEND THE ACT APPROVED DECEMBER 23, 1913,
KNOWN AS THE FEDERAL RESERVE ACT, AND
TO AMEND SECTION 5236 OF THE
REVISED STATUTES

PART 2

Printed for the use of the Committee on Banking and Currency



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ESTABLISHING SAVINGS BANK BRANCHES OF NATIONAL BANKS.

TUESDAY, FEBRUARY 1, 1921.

UNITED STATES SENATE,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The committee met, pursuant to call, at 10.30 o'clock a. m., in room 303, Senate Office Building, Senator George P. McLean presiding.

Present: Senators McLean (chairman), Calder, Pomerene, and Henderson.

The committee resumed the consideration of the bill (S. 4721) to amend the act approved December 23, 1913, known as the Federal reserve act, and to amend section 5236 of the Revised Statutes.

The CHAIRMAN. State your name for the record, and what position you hold.

STATEMENT OF MR. WILLIAM E. KNOX, VICE PRESIDENT OF THE BOWERY SAVINGS BANK, OF NEW YORK CITY.

Mr. KNOX. My name is William E. Knox. I am vice president of the Bowery Savings Bank. I am also vice chairman of the National Conference of Mutual Savings Banks.

Senator CALDER. Mr. Knox, your bank is a mutual savings bank?

Mr. KNOX. A mutual savings bank.

Senator CALDER. Tell the committee what your deposits are.

Mr. KNOX. Our deposits are \$154,000,000.

Senator CALDER. What is the surplus?

Mr. KNOX. Our surplus is \$15,000,000—10 per cent at present market values.

Senator CALDER. Is that the rule in New York State? Is there any rule in New York State concerning the surpluses of savings banks?

Mr. KNOX. The rule in New York State is that a surplus shall be accumulated, and the present rule in New York State, just coming into effect now, is that unless a bank has a 10 per cent surplus it can not pay over $3\frac{1}{2}$ per cent dividends to its depositors. There has been a sliding scale requiring a certain amount to be set aside every year in the surplus, and it has now come to the time—I do not know whether it is this year or next year—that a bank will be obliged, before it can pay more than $3\frac{1}{2}$ per cent to its depositors, to have at least 10 per cent surplus at the market value.

Senator CALDER. What is the rate of interest in your bank?

Mr. KNOX. Four per cent. We are paying 4 per cent now, and have been for two years; but eight years previous to that we paid

3½ per cent. because the surplus was sliding down all those years, due to the falling off in the value of securities, and the only way we could maintain our surplus or increase it was to pay a little lower rate on deposits.

Senator CALDER. So that your deposits and your surplus together amount to how much?

Mr. KNOX. Almost \$170,000,000.

Senator CALDER. How much have you invested?

Mr. KNOX. Eighty-six or eighty-seven million dollars. I may say that last year our deposits increased over the counter \$17,000,000, and we loaned \$15,500,000 on real estate, on mortgages.

Senator HENDERSON. How long have you been vice president of this bank?

Mr. KNOX. I have been vice president for a year. Before that I was comptroller and secretary for 10 or 12 years, and before that I was an employee of the bank. I have been with them for 35 years.

The CHAIRMAN. You may proceed.

Senator CALDER. In your own way.

Mr. KNOX. I simply want to call attention to the fact that the savings banks—I am speaking now more particularly for New York State, where we have the mutual savings bank law, and for the other States where they have a mutual savings bank law—mutual savings banks are organized with no thought of profit. There are no stockholders, no dividends paid to anybody. The money absolutely belongs to the depositors, and all dividends go to them over and above expenses, and the amount that is set aside in the surplus. Their investments are absolutely safeguarded. They are made just as safe as it is possible for human foresight to make them. We are strictly limited in the field of our investments. We feel that if this proposed measure should become a law and national banks should be permitted to establish savings departments, the same safeguards should be thrown around the money of savings deposits in national banks or in other banks that are thrown around them in the savings banks.

There are in the United States between ten and eleven million depositors in mutual savings banks, having in their care \$5,000,000,000.

Senator CALDER. Will you tell the committee what States in the country have mutual savings-bank systems?

Mr. KNOX. There are 16 or 18 States, I think. I have a list here which I will hand to you. There are 636 mutual savings banks covering those States.

(The list referred to is as follows:)

Mutual savings banks of the United States.

California	1	New York	142
Connecticut	81	Ohio	3
Delaware	2	Pennsylvania	10
Indiana	5	Rhode Island	19
Maine	45	Vermont	20
Maryland	17	Washington	1
Massachusetts	196	West Virginia	1
Minnesota	7	Wisconsin	3
New Hampshire	56		
New Jersey	27	Total	636

Number of national banks in New York State June, 1919, 1,021.

Senator CALDER. These States, I observe, are all in the eastern part of the country—that is, east of the Mississippi?

Mr. KNOX. Practically all. There is one mutual savings bank in California. There is one mutual savings bank in the State of Washington. The others are practically all east of the Mississippi or east of the Missouri River and north of the Ohio—almost all of them.

I should like to emphasize the point that in these mutual savings banks the trustees serve absolutely without pay. There is no stock. They have no personal interest. They absolutely can not borrow one penny from the bank, no matter what the security is. They are absolutely debarred by law from borrowing anything. We have in New York State a law which provides that the word "savings" can be used only by a mutual savings bank. There are 2,500,000 depositors in the State of New York. They have learned to know that the word "savings" is associated with that kind of a bank absolutely. That is practically the good will of our business—the name "savings" as we have been permitted to use it for all these years—and we respectfully submit that we would like to continue to use that name, and not have even so good banks as the national banks permitted to use the name.

Senator CALDER. Have our national banks in New York State savings branches under some other name?

Mr. KNOX. Yes, sir. They have what they call interest departments.

Senator CALDER. Where the depositors have a pass book?

Mr. KNOX. Where the depositors have a pass book, where they receive small sums on deposit, where they allow a stated rate of interest the same as the savings banks do, but with the very distinct difference that they are not obliged to make their investments specifically and specially for those departments in the same kind of securities that savings banks are, so that the protection is not as great in those departments as it is in the savings banks.

Senator CALDER. In other words, they merge those deposits with their commercial deposits?

Mr. KNOX. They merge those deposits with their commercial deposits.

Senator CALDER. But they can require a 60-day notice, as I understand?

Mr. KNOX. I understand that they can. I am not clear on that, but I so understand it. The practical effect of that is that in case a national bank should get into trouble, the demand depositors in the commercial department could be paid just as long as the money held out, while those in the interest department, or the savings department under the name of an interest department, might have to wait for the 60 days, and the other fellows might get all the money and the fellows in the interest department might not get any, which is manifestly unfair to them.

Senator CALDER. You say we have these interest departments?

Mr. KNOX. In some of the national banks; not all.

Senator CALDER. Have we in many of the New York City banks?

Mr. KNOX. I think there are very few in the New York City banks. I do not really know of any. As a matter of fact, I was talking with a national-bank man yesterday afternoon, and I told him I was com-

ing over to Washington, and he said, "Why, we have not got any such department. We do not want it. The business is too small in the individual amounts for us to handle. We would not care for it." And I think that would probably be the attitude of the big New York national banks.

The CHAIRMAN. They are not permitted to loan their time deposits on real estate, are they?

Mr. KNOX. No; I understand they are not permitted to loan them on real estate. Now, if the object of this bill is primarily to bring more money into the mortgage department, I think it will fail of its object. It will not create any more money. It would simply put the money in the national banks, which under the present law do not make loans on mortgage—I think they are not permitted to make loans on mortgage—and would take away just so much money from the savings bank, a large proportion of which otherwise would go into bonds and mortgages.

Senator CALDER. Are you not mistaken in that?

Mr. KNOX. I think not; sir.

Senator CALDER. While they are not permitted to loan directly upon a mortgage, they are allowed to loan on one's note, and accept a mortgage on real estate as additional security.

Mr. KNOX. That may be. I am not absolutely clear on that point, but I think as a matter of fact—

Senator POMERENE. The old law was changed in the Federal reserve act.

Mr. KNOX. So as to permit them to do that; but I do not think they lend to any very great extent.

Mr. SAUL. It only permits them to loan a very small part of the capital.

Senator POMERENE. It was done at that time.

The CHAIRMAN. That is outside of central reserve cities, the 100 mile limit.

Senator POMERENE. Yes. It was done at that time especially at the request of the agricultural communities.

Mr. KNOX. Yes.

Senator POMERENE. One of the complaints was that the Federal reserve act did not give any special banking privileges to the agriculturists, but rather was looking after commercial interests, and of course that was the primary object.

The CHAIRMAN. New York being a central reserve city.

Senator POMERENE. Yes. I think there is something to that effect. That is perhaps what you mean.

Mr. KNOX. There is another view that we would like to bring to your attention in connection with this matter: That the railroads and municipalities and borrowers on mortgage have looked very largely to the savings banks for funds with which to carry on their operations, for the reason that national banks and State banks and banks of that kind do not desire to tie up their assets or their deposits in frozen investments. It is a very large part of the business; in fact, the major part of the business of the savings banks is to finance such things as railroads, municipalities, and things of that kind. We like to make loans of three to five years on mortgages. We do not make a loan for less than three years ourselves, unless by the special request of the man who wants to borrow.

A man comes in and wants to borrow money. "How long will you lend it?" "Three or five years, at your option." We are glad to put our money out in that kind of security, and, as a matter of fact, we have 50 per cent of our deposits out in that form of security now, and, as I said, we loaned \$15,500,000 last year out of \$17,000,000 that we took in, which shows our perfect willingness to go into that sort of thing.

If the money is deflected to the national banks we do not believe they will be so willing to lend on bonds and mortgages as we are by any manner of means. We think they will be more inclined to keep their assets in a liquid form, and that the money, instead of going into bonds and mortgages, as it would in the case with us, will go into the more liquid assets if it goes to the national banks.

Senator POMERENE. If for no other reason, for the simple reason that their experiences have all been along that line. They prefer that kind, just as you prefer some other kind of security.

Mr. KNOX. Yes; and no national bank and no State bank with a large line of commercial deposits and checking accounts—absolutely demand accounts—wants to tie up its money in that sort of thing.

The CHAIRMAN. Your idea, then, is that if they are permitted to establish these savings departments and make loans on real estate, they will not exercise that privilege, but will take the money and use it for commercial purposes?

Mr. KNOX. I think they will be very likely to do so, because that would be more profitable to them. As a matter of fact, quoting ourselves again, for the last year, during most of that time when we were loaning money at 5½ per cent earlier in the year, and later when the rate stiffened at 6 per cent, we could have gone into the market and bought Victory bonds that would have paid us 6½ per cent. We did not do so, because we felt that we had a duty to the borrowing community; that it was part of our duty, as a quasi-public institution, to support the mortgage market to the best of our ability, and we made loans upon mortgages right straight along at 5½ per cent earlier in the year and at 6 per cent later, when we could absolutely have bought railroad bonds that would have paid us more than 6 per cent, and could have bought United States Government Liberty loan bonds that would have paid us more than 6 per cent.

The CHAIRMAN. Suppose the national banks, when they have this privilege, find that it is profitable to use the money for commercial purposes rather than real estate investments. Will they not be tempted to raise the rate bid for money above 4 per cent, above what the savings bank can pay?

Mr. KNOX. It is possible that they might, and that would be to the detriment of the savings banks and might take away funds from the savings banks.

The CHAIRMAN. Do they not now pay 4½ or 5 per cent for an investment loan sometimes? I know the brokers do. I do not know whether the banks do or not.

Senator CALDER. Some of the national banks of the country having savings departments pay as low as 2 per cent for their savings deposits.

The CHAIRMAN. Yes; but I was asking if there might not possibly be the temptation on the part of these banks to go out and bid money away from the savings banks.

Mr. KNOX. It is quite possible that they might do it.

The CHAIRMAN. I want your opinion. I do not know about it.

Mr. KNOX. If they found that they could keep all the money they had in their savings department out in bankers' acceptances and trade acceptances and things of that kind that are paying a higher rate than the ordinary savings-bank investments, I think they would be very strongly inclined to do it.

The CHAIRMAN. If they could get 6 per cent on commercial loans, could they not well afford to pay 5 per cent to the depositors?

Mr. KNOX. They could; but we contend that the safeguard around the savings deposits then would not be as strong as it is with savings banks that are strictly limited in the character of their investments.

The CHAIRMAN. What effect would that have on the savings banks which can not pay more than 4 per cent?

Mr. KNOX. It might withdraw deposits from the savings banks, which deposits, if allowed to remain in the savings banks, would stay out on bonds and mortgages and go out on bonds and mortgages as the opportunity offered.

Senator CALDER. But the facts are that there are to-day in the national banks of the country something like \$2,700,000,000 in time deposits.

Mr. KNOX. Yes, sir.

Senator CALDER. If you take away the certificate of deposit, it gets you down to about \$2,200,000,000?

Mr. KNOX. Yes.

Senator CALDER. Now, my only purpose in this bill is to direct a substantial portion of those funds toward loaning on mortgages.

Mr. KNOX. I see.

Senator CALDER. It is not a problem in New York City with us, because you gentlemen are helping take care of us, and doing it splendidly. I contend that we have the finest savings-bank system in the world, Mr. Chairman, and our savings banks can not be commended too highly for their good work; but out away from the big cities, over in the country where Senator Henderson lives, out in the West and South, where they have not got the savings banks, the national banks are drawing in the people's money on long-term deposits, and they are directing those funds toward long-term loans, which I think you will agree with me is against the very A B C of banking, and should not be permitted.

What I am trying to do is to encourage that money to be loaned back to the people of the community rather than bring it to New York, and perhaps invest it in speculative things. That is my purpose only.

Mr. KNOX. That being the case, I think any savings-bank man would agree with me to this extent, and it was the sense of the meeting I was at yesterday that I should convey this to the committee: We have no objection whatever to national banks being permitted to run savings departments if this committee and the Senate and Congress think it is wise to permit them to run savings departments under the name of "savings." We would very much rather that they did

not use the name "savings" in States like ours, where our savings-bank business is a special business, specially established in the minds and in the hearts of the people.

If, however, national banks are permitted to establish savings departments we think, in all fairness to our millions of depositors and to the millions of people in the State who might become depositors, that they should be safeguarded absolutely the same as they are in the savings banks, obliged to segregate their investments so as to apply to that particular branch of their business, and compelled to set aside a certain part of their capital and surplus at least equal to the average surplus of the savings banks in the State for the protection of those particular funds.

Senator POMERENE. Well, Mr. Knox, suppose you did that; what would be the effect if, let us say, the commercial department of a national bank should become somewhat embarrassed, and the savings bank was prosperous—or, changing it, suppose the savings department should become embarrassed and the commercial department not—would you not have the one aid the other?

Mr. KNOX. After all the depositors in that particular department, the savings department, were paid, if there was anything left I would be perfectly willing—and I think any savings-bank man would—to have it go toward the claims of the depositors in the other department.

Senator POMERENE. But any bank, the best conducted bank in the world, may possibly get into an embarrassed situation.

Mr. KNOX. Yes.

Senator POMERENE. And if its funds were all available for all proper purposes, perhaps they could tide over the difficulty; but if it became known that one of these departments was embarrassed, would not the effect be to embarrass the entire bank?

Mr. KNOX. Very likely; very likely. On the other hand, if there were no savings departments in national banks, and the small man with small savings—\$100, \$200, \$300, \$400, or \$500—had no place to put his savings but in a savings bank, the safeguards there are so many and the bank is so well hedged around with security that the chance of a savings bank pure and simple becoming embarrassed is almost negligible, whereas the chance of a bank doing various departmental business being embarrassed is very much greater.

Senator POMERENE. Is not the purpose of Senator Calder partly cared for by this scheme, which prevails—I do not know anything about New York—but, for instance, in Ohio: in our larger cities? There will be a national bank, and the same stockholders will organize a trust company, and they will receive these savings, etc.

Mr. KNOX. That is so in some of the other States, notably in the State of California; but it is specifically provided in the law of California that all their deposits shall be segregated and each department kept absolutely separate from any other department, as though it were a separate bank, under a separate roof; and in case of the embarrassment of the bank the assets pertaining to that particular department go to pay the claims of the depositors in that particular department. Then, after that, as I understand the California law, if there is anything left, all the claims of the savings department having been met, any surplus may be applied to the other claims.

Senator POMERENE. Suppose that were done in the way you have indicated; what benefit, as a whole, would it be to the entire country?

Mr. KNOX. I think it would be a very decided benefit to the entire country, in so far as you would safeguard the savings of the small man, whom we are particularly interested in, and whom you are particularly interested in, who has not business sense enough, possibly, to pick out the strong, secure institutions.

Senator POMERENE. Your answer is rather looking at the matter from the standpoint of the depositor. What I had in mind rather was to get your view with regard to the effect that this scheme would have upon the entire finances of the country. In other words, this is one of the objections, as I see it: I do not think we have too much capital now in commercial banking, and it seems to me that if you are going to segregate the savings from the commercial side of the national bank, to that extent you are going to handicap the commercial interests of the country.

I recognize that in many of these towns there is a great demand for larger housing facilities, etc.; but I do not know any one of these communities where it is not true—and I am speaking now with reference to the industrial communities in Ohio which have developed so tremendously—that while there is this very great demand for additional housing there is also a very great demand for commercial enterprises and commercial funds; and it seems to me that if you are cutting down the commercial side of a bank you may be able to benefit to some extent the building side of it or the savings side of it, but to the same extent you are going to cripple the commercial interests.

Mr. KNOX. Absolutely. It is a case of serving two masters.

Senator POMERENE. That is it exactly.

Mr. KNOX. Therefore, my contention is that the savings banks, as conducted in the State of New York, are the institutions that are primarily interested, not in making short-time investments that pay a high rate of interest but that are willing to make long-time three and five year investments in mortgages that pay a much lower rate of interest, that offer a larger security to their depositors; and in our own State out of the two billions and a half on deposit I should say that there are over a billion dollars out in mortgages.

Senator CALDER. There is \$1,300,000,000 out in mortgages.

Mr. KNOX. Probably half of the deposits.

Senator CALDER. About half of the deposits.

Mr. KNOX. If you open the door and permit any of these savings to go to the national banks, the chances of their finding their way into mortgages are much less than if they are permitted to stay where they are now.

Senator CALDER. But under the present law the deposits are going into the national banks. All over the country we have savings departments in national banks, and this business is being done.

The CHAIRMAN. Right there, you are not getting any more cash. You are not adding a dollar to your cash. Why, then, do they not organize a savings institution in the West as we do in the East, and have them managed separately? Do you have savings banks in Ohio?

Senator POMERENE. Oh, yes.

Mr. KNOX. Oh, yes—Myron Herrick's great institution.

Senator POMERENE. Yes; that is in a class by itself.

Mr. KNOX. That is in a class by itself; but there are other banks, managed along those same lines, which provide the same service in the way of providing mortgage money for the State of Ohio. A few years ago, in the State of Washington, a building and loan association called the Washington Building & Loan Association had a mutual savings-bank law, absolutely modeled on the New York State savings-bank law, passed for the simple purpose of doing that business, and the success of that bank has been phenomenal. I think about three years ago, when they changed over, their deposits were less than \$5,000,000.

The CHAIRMAN. They do not have these banks in the South; they do not have them in the far West. Do you know why?

Mr. KNOX. The reason is because their sense of citizenship and philanthropy is not so developed as to make it practical, as it has been in New York State, for a number of men to get together and say, "We think a savings bank in this community would be of decided advantage to the community as a community, and to the poor people in the community."

The CHAIRMAN. Is not that the scientific and economic way out of it, the best way, for them to establish savings banks? Now, we have a Federal farm-loan system, which is a great benefit throughout these sections that you are speaking of in accommodating the farmers through making loans on their farms, and we hoped that that would relieve the situation.

Senator POMERENE. This is the situation: I had occasion to look into that, and I referred to it on the floor of the Senate the other day.

You have 10 States in the Union now in which the contractual rate of interest is 12 per cent, and 12 States in which the contractual rate of interest is 10 per cent, and a lot of those people have never learned the lesson that they can make more money by charging a less rate of interest to their borrowers. That is the difficulty about it.

The CHAIRMAN. Yes; but that will not be remedied, will it, by establishing savings departments?

Senator POMERENE. If they were encouraged to go ahead with this, it could be done.

Now, speaking of the savings situation, out in my home city of Canton we have probably 15 banks—I do not remember the exact number—but the third and fourth largest banks in that town are savings banks. They are doing a wonderful work, just along the lines Senator Calder speaks of. There are other smaller savings banks there, there are two large building and loan associations, and I think that situation is very well cared for.

Now, while the housing situation has been acute, as Senator Calder has suggested, take the city of Akron: That city complained very bitterly because of a want of houses. As a matter of fact, when this slump came in the rubber industry, a whole lot of these people moved out of Akron, and I think they have no housing question there now. As some one has described it out there, the people have moved out of the attics and the cellars, and there may be very few empty houses there, but if you should pass a bill of this kind it seems to me you would cripple the commercial side of that town. What they want there more than housing now is money for their commercial enterprises.

Senator CALDER. Just a minute. I do not agree with that just in the way the Senator puts it. I believe that these deposits that go into the savings departments of national banks should be utilized for long-time investments, to buy bonds, if you like, good railroad bonds, good municipal bonds, United States bonds, and to loan to people to build homes.

The CHAIRMAN. But you can not compel them in your law to do that.

Senator CALDER. I think we are endangering the savings deposits of the people by just such methods. I think that our whole system is wrong. We have these savings deposits now in these national banks; they are there, and even if we do not do anything with this bill, if we stand still, they will continue. They are going on building up and building up and building up vast sums of money, and utilizing their money always for long-term investments.

The CHAIRMAN. But you can not compel them to loan the money on mortgages.

Senator CALDER. I know you can not, but—

The CHAIRMAN. And there will be a temptation on the part of these western banks to send their money to the centers where they can get higher rates of interest if they have long-time deposits. Would you not be worse off than you were before? We frequently hear from gentlemen farther west than the Senator from Ohio that the national banks in the West are sending their long-time funds to New York, and that is one reason why the accommodations are crippled in the West.

Mr. KNOX. You mean they are sending their long-time funds to New York on call loans because of the high rates of interest?

The CHAIRMAN. Yes; but if they are permitted to establish savings departments—

Senator CALDER. They have them now, Mr. Chairman. They all have them now.

The CHAIRMAN. Yes; and they can loan a certain portion of their capital and surplus on real estate mortgages for not more than a year.

Mr. KNOX. They can do it, but do they?

The CHAIRMAN. That is just the point I make; they do not do it now; and if you extend the privilege will you not, instead of benefiting the situation, aggravate it?

Senator CALDER. But they can loan their money now on mortgages only as additional collateral to secure the payment of individuals' notes.

The CHAIRMAN. If they are not in a central reserve city, they can loan a certain percentage of their capital and surplus on real estate mortgages for one year, and it was suggested the other day that there might be no objection to extending that to three years.

Senator CALDER. That would cover what I want to do.

The CHAIRMAN. But you can not compel them to do it.

Senator CALDER. These gentlemen think that if you do that, you should have every safeguard thrown around those deposits.

The CHAIRMAN. Now, if you do not, you are simply putting your savings deposits into national banks; that is what you are doing.

Senator CALDER. You have them there now, Senator.

The CHAIRMAN. I know it, but it does not work. The small percentage you get now is not put out on real estate.

Senator CALDER. Out of the total deposits in national banks to-day of \$9,000,000,000, we have \$2,700,000,000 in time deposits.

The CHAIRMAN. Yes; but it is not loaned on real estate.

Senator CALDER. Of that sum, about \$100,000,000 is loaned on real estate.

The CHAIRMAN. That is all. Now, suppose you increase that deposit to five billions; you are taking it away from the savings banks.

Senator CALDER. How would you increase it to five billions?

Mr. HUBBARD. Advertising the word "savings," and changing the name of the bank to "savings," is going to be the greatest asset possible for getting in savings deposits.

The CHAIRMAN. I think there is danger of your defeating the main object you have in view by permitting two banks to run under one management.

Mr. KNOX. As it is now, Senator, the practical working of the matter in a State like New York, like Massachusetts, like Connecticut, like any of these States that have mutual savings bank laws, is that the poor man goes to the bank that uses the name "savings," and the savings bank puts out every dollar that it can in mortgage loans. Our favorite form of investment is mortgage loans. That is the first thing we look for—"are there good mortgage loans in the market?" The last thing we look for is short-time securities that we can turn into cash quickly. There is a certain amount of it carried, and that is why we buy bankers' acceptances. Since they have been made legal for us within the last couple of years in New York, we keep part of our cash in that; but the bulk of our money, and the bulk of the money in any institution like ours, goes into mortgage loans, just as much as we can get into that; because we feel that it is the best investment for a savings bank, and we are not doing the kind of business where we can be called on for large amounts of money at a time. They are practically time deposits when they are with us.

The confidence that people have in the savings banks has been very strongly emphasized just recently. With business depression such as it is, and with unemployment increasing as it is, the savings bank deposits have increased in practically every savings bank in New York, for the reason that the thrifty fellow who has money in the savings bank sees the possibility of hard times coming and he is hanging on to his dollars harder than ever he did before, not knowing what is going to happen in the future.

Senator CALDER. Did your deposits increase in December?

Mr. KNOX. They increased in December \$3,600,000.

Senator CALDER. Did they increase in January?

Mr. KNOX. They increased in January, the first 10 days, \$3,800,000.

On the 10th day of January, which is the last day they can get their money in to secure interest, they increased \$1,150,000, and we closed the month of January yesterday over \$3,000,000 ahead for the month.

Senator CALDER. What did you say a moment ago your total investments in mortgages are?

Mr. KNOX. \$86,000,000.

Senator CALDER. And the balance of your money invested is what?

Mr. KNOX. About \$25,000,000 worth of United States Liberty bonds, Victory bonds, and United States securities, which, if we had

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not felt obliged to invest in Government securities as a patriotic duty, would have mostly gone into mortgage loans.

We do not care how many agencies for savings there are, so far as they are safeguarded, so long as the proper guards are thrown around the deposits of the poor people. We do not care whether they are in the National bank, State banks, or building and loan associations, or what, as long as they are properly safeguarded. We do not desire to monopolize the business for ourselves, but we insist and maintain that the deposits of that class of people, which only amount to a few hundred dollars in the average case, should be absolutely safeguarded as they are in the savings banks.

Senator POMERENE. That is a real charity; at the same time, I think it is a good business proposition for your bank to tie those depositors to you.

Mr. KNOX. Absolutely.

Senator CALDER. Tell us how the rest of your money is invested.

Mr. KNOX. We have a matter of, I should say, about \$30,000,000 worth of railroad bonds.

Senator CALDER. \$30,000,000 of railroad bonds?

Mr. KNOX. Yes; some of which cost us 20 or 30 per cent more than they are worth now; for example, New York Central bonds.

Senator POMERENE. Are those fives usually?

Mr. KNOX. They are all sorts. They are the underlying railroad mortgage bonds—Chicago & North Western; Chicago, Milwaukee & St. Paul; New York Central; Lake Shore—all the high-class railroads. Those were bought, some of them, at a basis that paid us 3½ per cent years ago, when money was coming in plentiful, and we bought bonds and mortgages. We had to have them. Now we are anchored with them and we have got to keep them.

Senator CALDER. They are frozen.

Mr. KNOX. They are certainly frozen clean to the bottom.

Senator McLEAN. They are dividend payers, of course; are actually secured?

Mr. KNOX. I am not worrying with that proposition. We hold them, and they will be paid in 1997; some of them.

Senator CALDER. These different bonds are stipulated by the law—

Mr. KNOX. They are stipulated by the law of the State.

Senator CALDER. In which you shall invest your funds?

Mr. KNOX. Yes.

Senator CALDER. Now, we have the railroad bonds. What else?

Mr. KNOX. Municipal bonds—bonds of various municipalities in some of the States.

Senator CALDER. States other than New York?

Mr. KNOX. Oh, yes; we have bonds in the State of Massachusetts, for example.

Senator CALDER. Are they worth what you paid for them?

Mr. KNOX. No, sir; none of them. The most of those bonds were bought on a basis not better than 3½ per cent. Now they are bringing about a 5 per cent basis. They are worth very much less.

Senator CALDER. So you invest in bonds and mortgages—

Mr. KNOX. Bonds and mortgages, railroad bonds, United States bonds and certificates of deposit, municipal bonds.

Senator CALDER. All of those securities have fallen off in actual salable value to-day.

Mr. KNOX. Yes.

Senator CALDER. Saving only the mortgages?

Mr. KNOX. Saving only the mortgages.

Senator CALDER. You have not marked off one dollar on those, have you?

Mr. KNOX. On the mortgages we have got \$86,000,000 worth. We do not own a single piece of property taken under foreclosure, and we have two cases where the interest is a little behind.

Senator CALDER. I want that to go in the record, that during all of these difficult days of high prices of labor, etc., you have gone on lending money, and you still hold the value of your securities at what they cost.

Mr. KNOX. Yes; absolutely.

Senator CALDER. Of course, you have been very careful in making your appraisals?

Mr. KNOX. Yes.

Senator CALDER. And very properly so.

Senator POMERENE. What percentage of the value of the property do you lend?

Mr. KNOX. Sixty per cent of a conservative appraised value. For example, we would not lend 60 per cent of what it cost to put up a building within the last year of inflated prices and the Brindell blackmail addition to the price, although we were strongly criticized because we would not lend on those values; but time has proven our absolute good judgment.

Senator McLEAN. What is your rate on your State mortgage?

Mr. KNOX. Just at present, 6 per cent. We can just as easily get 6½, because we can make perfectly good investments in railroad bonds to-day that pay 6½.

Senator McLEAN. That is a fair rate in the East?

Mr. KNOX. Yes. When you submit your proposition to the West that is a different proposition.

Senator McLEAN. They can get more than that.

Mr. KNOX. It is a very difficult proposition.

Senator McLEAN. You can not hold it on your real estate in the West, because they can get 7 and 8 per cent.

Mr. KNOX. Yes; because of the vast geographical extent of the country and the varying conditions.

Senator CALDER. You have a law in New York which permits you to lend how much, what percentage of your deposits on bonds and mortgages?

Mr. KNOX. Sixty-five per cent. We have been actually for years and years taking all that we can, and we have gotten up to about 50 per cent.

Senator CALDER. Is there a minimum amount that you may loan?

Mr. KNOX. No, sir.

Senator CALDER. You can only lend 10 per cent if you like?

Mr. KNOX. We do not need to lend anything if we do not like. As a matter of fact, we lend all that we can find good loans for.

Senator CALDER. Is that the practice of savings banks in New York?

Mr. KNOX. I think it is the practice. I think I am perfectly safe in saying that.

Senator CALDER. I thought I observed, last summer, in some institutions a disposition to secure these securities that were showing a bigger rate of interest.

Mr. KNOX. Well, it is possible that might be so, but from the institutions that I know—I only know absolutely my own—I know that some of the smaller banks frequently call up and ask for advice, and ask us what we are doing, and we have said: "Put all you can in mortgages, even if you don't get as much on it, for the reason that it is our duty to the community to do it."

Senator CALDER. Mr. Knox, have you much demand for mortgage loans?

Mr. KNOX. Not very much demand. There is absolutely no building going on in the State. It is practically dead.

Senator HENDERSON. You refer to New York?

Mr. KNOX. I refer to New York. That is practically so in New York, and the reason that it is so is that no man is going to build under our present New York laws that allow the tenant and the judge of some court to determine what his rent returns shall be.

Senator CALDER. So that our rental laws, which, perhaps, our public demand compels us to pass, have stopped building?

Mr. KNOX. It was absolutely a play to the galleries: that is what it was. The public was clamoring for lower rents in spite of the fact that the same party that was objecting to paying 50 per cent more rent—I am not a landlord, and I am not speaking now in the interest of any interested circle—these same fellows that were shouting were themselves getting two or three times the pay they had gotten before. They talk about grinding the people down on the East Side. Buttonhole makers that were getting \$15 a week and paying \$15 a month rent were getting from \$60 to \$100 a week and objected to paying \$25 a month rent, and the landlord was gouging them. That is a plain statement of the facts in the case. That was so all through.

Senator CALDER. It is your opinion that our rent laws in New York have stopped building?

Mr. KNOX. They have absolutely stopped building.

Senator McLEAN. They tried it in Sweden, and for two or three years there has not been a nail driven.

Mr. KNOX. Why should a man put his money in bricks and mortar for housing anybody at all when he knows that some municipal court is going to hold him down to a bare 5 or 6 per cent on his investment and when he knows he can put the same amount of money in a perfectly good United States bond and collect 6 per cent, and he has no taxes or repairs or insurance to bother his head about? He is care free. He gets a good return.

Senator CALDER. Mr. Knox, I believe that ultimately the effect of the Untermyer investigation will be a perfectly good thing.

Mr. KNOX. I think so.

Senator CALDER. Because we are going to clean out the crooked combinations, the crooked labor men, and the crooked material men, but temporarily that has retarded building, has it not?

Mr. KNOX. I think it has.

Senator CALDER. Because the community has lost confidence in the building interests?

Mr. KNOX. Yes; I think that is so. Now, you heard a great deal about the savings-bank lobby, the insurance company lobby at Albany, about the investigation of the banks and insurance companies. I know nothing of any such lobby. I am sure our bank has taken no part in it. I am sure such associations have taken no part in it, absolutely none. If they want to come and investigate us, we say, "Come on; here are our books." The association was not ever represented at any time in the hearing. We did not care.

Mr. WHEATON. Neither by counsel.

Senator McLEAN. Mr. Knox, have you called the attention of the committee to all the points you desire to with regard to this?

Mr. KNOX. There is another thing I do want to say in addition to the fact that if this law should go through and you should permit the national banks to operate savings departments, in addition to segregating their investments so as to apply to that department, segregating the portion of their capital and surplus at least equal to the average surplus of the savings banks in any State, a State like New York, for example, they should also keep a separate account and segregate the expenses of running that department.

I was told yesterday by a Massachusetts man that there are institutions in Massachusetts, in Boston, naming principal trust companies that run savings departments, that run it apparently at a very great advantage to themselves, and that spend a matter of \$200,000 a year in advertising, most of which is directed to their advertising of the savings department, and that expense is actually lumped with the general expenses of the bank, which is not good. They ought to be obliged, if they run any such department, to segregate the expenses of that department and charge up the pro rata of their overhead, clerical force, and everything else to the actual expenses of that department.

Senator CALDER. Then, if we are going to encourage and develop our savings departments in national banks, you want some such measure as I have here, even stronger.

Mr. KNOX. If not stronger. We would like the privilege of sitting in with you and suggesting such things as we think would be fair to the savings department, to safeguard the poor people that would put their money in there, which would give them at least as great security as they have already in the savings banks of the various States.

Senator CALDER. This bill is strongly directed that way.

Mr. KNOX. It is; but there are two or three things it does not do. If you will make it mandatory—it is permissible in some respects—make it mandatory, that they shall absolutely set aside a proportion of their capital and surplus, that they shall set aside from their expense account an absolutely fair share of the expenses of that department.

Senator CALDER. Of course, in all probability, you will not have any savings departments in national banks.

Senator POMERENE. Let me ask you: You, of course, are organized under the New York State law. Would you regard it as sound legislative policy to have your New York General Assembly apply the principle of this bill to your savings institutions?

Mr. KNOX. I do not know that I quite get you. In what respect?

Senator POMERENE. Well, with regard to the segregation of loans. You have testified here that while the bulk of your deposits go into the real estate mortgages, etc., there is a certain portion of your funds that you loan for commercial purposes.

Mr. KNOX. Well, not exactly. I did not say that. We can buy bankers' acceptances which grow out of trade operations, on which we look to the banker. That is only a small portion; for example, my own bank has about \$7,000,000 worth now out of \$150,000,000, and that is simply a secondary cash reserve that we lend on the strength of the credit of the bank that accepts the draft, not on the security of the commercial transaction behind it. It is simply a secondary cash reserve. For many years we have had that.

Senator POMERENE. Perhaps I did not express myself accurately. You do invest in railroad bonds, railroad securities, and other securities of that kind. Now, some of your banks do do a commercial business?

Mr. KNOX. No.

Senator POMERENE. None of them at all?

Mr. KNOX. Absolutely none.

Senator POMERENE. Well, then, I am wrong.

Mr. KNOX. They can not under the law. There is no such thing as a savings bank in New York State that does anything of that kind.

Senator POMERENE. Some of our banks do it.

Mr. KNOX. They do it in other States, where they have stock savings banks, but not in New York, not in any of these States of which we have given you a list.

Senator CALDER. Have we got stock savings banks in New York?

Mr. KNOX. None whatever, sir. There can not be.

Senator POMERENE. Some of our savings banks, except Herrick's Bank, and I think possibly one other—

Mr. KNOX. I think there are three in Ohio.

Senator POMERENE. Probably three, I had in mind two. They are stock banks. Some of them are entirely savings banks and loan almost entirely upon real estate securities, and others do a commercial business as well.

Mr. KNOX. May I make a suggestion, Senator? You are doing all you can to try to help out the housing situation. Our present United States laws have one particular provision that is absolutely operating against the housing situation, and that seems to be the most vital point of all. For example, in the city of New York I can quote the names of the estates that are doing it and have been doing it for the last couple of years—the Russell Sage estate, for example, and the Clark estate, the Hetty Green estate, the John Andrews estate, all those people who have heretofore had millions and tens of millions of dollars invested in mortgages for the last couple of years have been absolutely drawing every penny they have out of the mortgage market and throwing the burden of carrying those loans on the savings banks and other lending institutions, because the surtax, the income tax has taken away from them two-thirds of their income. If that surtax applicable to mortgage loans could be set aside it would have the effect of keeping whatever money there is in great estates that is liable to the surtax in the mortgage loans. It would make mortgage loans very much more attractive to these large estates.

Senator McLEAN. Yes; but it would not work as long as these estates can buy nontaxable bonds. Where the income is more than \$100,000 you can readily see that the 6 per cent mortgage would have a disadvantage against the ownership of a nontaxable bond.

Mr. KNOX. It would not be at such a disadvantage as the 2½ per cent mortgage is now. Then there are lots of estates other than such tremendously big estates that have not millions out, but that have a hundred thousand out or a quarter of a million out, where the income is not so great, but a large proportion of that income goes to the surtax. If we were to remove that it seems to me it would leave intact a source of money for mortgage loans, new housing, and all that sort of thing, which instead of increasing is absolutely diminishing, and diminishing very rapidly.

Senator McLEAN. You have about \$16,000,000,000 out in these non-taxable securities. That is where these large estates have their money. Would you not be better off to cut your surtax down to not more than 30 per cent on incomes and raise your money in a turnover tax?

Mr. KNOX. A turnover tax appeals to me, but it makes no difference to the savings bank, because we are specifically exempt. Much of our problem in the last couple of years has been that fellows come into our office with tears in their eyes and say, "Such and such an estate has called my loan. What are we going to do?" We have to take those loans, we have had to take plenty of them to keep the fellow from being foreclosed. While some of the estates have behaved with very great leniency, yet they come to the man and say, "We want this paid off unless you can place it elsewhere. We will give you as much time as you like, but we want it." It is not pleasant to feel a man sitting on your back who wants his money the minute you can get it. When he succeeds in placing his loan elsewhere he is taking just so much out of the market that otherwise would have gone into a new loan to help out the housing situation.

Senator CALDER. Mr. Knox, if we can in our revenue bill make the maximum income tax 30 per cent and make up the difference by a turnover tax, we will have solved the thing you complain of?

Mr. KNOX. I think you will.

Mr. CALDER. Without any special exemption?

Mr. KNOX. There should be no such thing as tax exemption. Everything and everybody, I don't care who it is or what it is, should pay his fair share.

Senator POMERENE. Yes. I am glad to hear you say that.

Mr. KNOX. It would make better citizens of our people.

Senator McLEAN. When you prefer them, a real estate mortgage or any other, you will immediately find some other requirement that is just as compelling, just as necessary. When you begin to exempt one class of property from taxation you have got to rob some other class.

Mr. KNOX. It is not only the class of property but it is the people. There is a class of people who are growing up in this country, the so-called labor element, who feel that they ought not to pay any taxes of any kind. Why should not a man who is earning \$20 or \$30 or \$40 or \$50 a week pay his \$5 or \$10 a year? That is not much tax. It is not going to hurt him much. He spends that much on foolishness every month.

Senator POMERENE. You are not a Congressman and you do not need to be afraid of having that put in there. I mean exactly what I say. There are a lot of people coming here seeking some such exemption. You spoke of the labor organizations. Another class of offenders of the same type are the life insurance companies.

Mr. KNOX. Well, that may be true.

Senator POMERENE. I am not in favor of exempting anything.

Senator MCLEAN. Are there other gentlemen here who wish to be heard? Mr. Saul, would you like to give us your angle of it?

STATEMENT OF MR. B. F. SAUL, WASHINGTON, D. C.

Mr. SAUL. Mr. Chairman, I do not think there is anything in particular that I might say. There are one or two things, however, that I have noticed in this discussion. One was the question as to whether or not the national banks would in times of great demand for money bid up the rates. That is what has occurred, I know, in Boston, has it not? Were not the rates there $4\frac{1}{2}$ and 5 per cent?

Mr. KNOX. Yes, sir.

Mr. SAUL. I do not know whether the savings banks did actually demand this, but the trust companies probably did. It has caused the savings banks to increase their rates beyond what they should.

Senator POMERENE. What is the prevailing rate in New York?

Mr. SAUL. Four per cent.

Mr. KNOX. Some of the banks are paying $3\frac{1}{2}$. Most of the banks are paying 4 per cent in New York.

Mr. SAUL. A mutual can not well pay over 4 per cent.

Senator POMERENE. I think most of our banks have a rate of 4 per cent, making it 5 per cent on time deposits left for a year.

Mr. KNOX. We can not take a time deposit.

Senator HENDERSON. Do you pay interest on open accounts, 2 per cent, as some banks do?

Mr. KNOX. Oh, no. We are purely a savings bank. We pay 4 per cent. People sometimes say to us, "you are getting 6 per cent on your mortgages, why don't you pay us $5\frac{1}{2}$?" For the simple reason that of our \$150,000,000 forty or fifty or sixty millions of it are in railroad securities, municipal bonds, that are paying us perhaps considerably less than 4 per cent, a great deal of it $3\frac{1}{2}$, and we have one bond in our bank to-day that pays us 2.9 per cent.

Senator MCLEAN. I wish you would complete your statement with regard to the effect of something in Boston you were speaking of.

Mr. SAUL. That was Boston that I am familiar with. I have no doubt it is the same in other communities that I have not investigated. I just wanted to call that to your attention because I know from talking to a savings bank man there, Mr. Washburn, that they were paying $4\frac{1}{2}$ or 5 per cent.

Senator MCLEAN. The trust companies?

Mr. SAUL. Well, the savings banks were, because they had to come up to it on account of the trust companies.

Senator MCLEAN. On account of the competition of the trust companies?

Mr. SAUL. Yes.

Senator MCLEAN. What do the trust companies do with the money they get?

Mr. SAUL. Well, in these times they can put them into securities easily at 7 to 8 per cent.

Senator McLEAN. Are they lending them out on real estate?

Mr. SAUL. I do not believe they do; but I do not know. I doubt if they do.

Mr. KNOX. They are lending money on commercial loans at the present high prices?

Mr. SAUL. I can not answer that as a matter of knowledge. I have no doubt they are lending it on 7 and 8 per cent securities.

Senator McLEAN. Trust companies can loan on real estate if they want to?

Mr. SAUL. Yes, sir.

Senator McLEAN. They do not.

Mr. SAUL. They do not do it.

Senator McLEAN. Because they get more for their money, whereas to the mutual savings bank, which is created for that purpose, that is the best investment it can get, and long experience has demonstrated that that is where the money goes.

Mr. SAUL. Yes.

Senator McLEAN. When you undertake to combine it with the commercial situation you are defeating the object that you seek to attain.

Senator CALDER. You have these savings departments in the national banks?

Senator McLEAN. Instead of adding to your fund that goes to the real estate you are going to subtract from it.

Senator CALDER. No; I am not, because I am going to permit them to lend for a period of years.

Senator McLEAN. Permit them; but you can not compel them.

Senator CALDER. I have discovered in my visits throughout the country, where I have had the hearings on these various subjects, that the national bank officials over the country, most of them, would like this very thing to be done.

Senator McLEAN. They would like to get the money.

Senator CALDER. Because they want to lend their money on mortgages.

Senator McLEAN. Not on real estate.

Senator CALDER. Yes; they have said so.

Senator POMERENE. You will find that national banks as a general rule want all of their loans in liquid form. There is not any question about that.

Mr. SAUL. If you will pardon me right here, the present law permitting the spending of money by a national bank on real estate is of no use to the national bank because it is so little, being a very small part of its capital and only loaned for one year, with great restrictions, and when they want to make any other loans they can do about as they please, without any limits; so that no bank wants to lend any money on real estate, whether that is the best field or not. I am not arguing that the national bank should be allowed to lend any money on real estate. That is a question for the committee, in its wisdom, as to whether they feel that a national banking system should have any mortgages. Under usual conditions the savings bank lends from three to five years. Undoubtedly in certain communities they would lend on mortgages, because that is a good field,

but in other communities, particularly a community and a time like this, with interest rates up very high on commercial loans and acceptances and short-term notes, they would not want to lend on mortgages, but they would at times.

There is another thing: A good many institutions in this town, when they could lend money at 7 per cent in other securities, would take mortgages at 6. They did it for two reasons: One was to help the community, and another was that they were taking a loan for three or five years, whereas this temporary rate of 7 per cent may be cut off the next month.

Senator HENDERSON. You say "this community"; what community do you refer to?

Mr. SAUL. Washington. There was a question that was asked, Senator, in regard to why the savings banks were not established in the Western States. The situation is that no savings banks have been established anywhere in the last 25 or 50 years, to speak of. I imagine that the savings banks in which 90 per cent of the savings are were organized 40 or 50 or 75 years ago.

Mr. KNOX. I think you are right on that.

Senator POMERENE. You are speaking of these nonstock banks?

Mr. SAUL. Yes. When you come into the West where the communities have been built up in the last 25 or 50 years, they have not started them, because it is only in recent years that stock banks have been paying interest. When these savings banks were started they were started in big communities like New York, Philadelphia, or older communities that were not so large, where the banks in those days paid no interest at all; and when a few men would get together and establish a bank without any capital, it was the only place they could get any interest. They perhaps kept open two or three hours a week at first. Well, to-day you can not start a bank and do business without a large capital, without a good banking room, when a trust company or national bank with millions of dollars standing in the community is paying the same rate of interest. So that practically no savings institutions have been started in the United States in the last 25 years.

Senator CALDER. Have we had any failures of savings banks in our State?

Mr. KNOX. No; we have not had any since the Washington affair, for 30 or 40 years.

Senator CALDER. We have had the commercial banks fail?

Mr. KNOX. Yes, sir.

Senator McLEAN. If the national banks in the West are paying 5 per cent or $4\frac{1}{2}$ per cent on time deposits—I understand you to say that is what they are paying?

Mr. SAUL. They are in Boston. I am not familiar with that, but I have no doubt they are where the demand occurs.

Senator HENDERSON. That was in Boston that he referred to.

Senator McLEAN. I understood him to say that the reason why these savings banks were not established throughout the country was due to the fact that the national banks paid interest on deposits.

Mr. SAUL. National and State banks, and there was not a necessity for it.

Senator McLEAN. If they do, they probably pay from 4 to 5 per cent on time deposits.

Senator HENDERSON. I think that is universally true in the West, that all of those banks are paying the same as the savings banks.

Mr. SAUL. Yes. If there are banks well established in the community that pay interest, there is no opportunity for an institution to be started without paying interest in competition.

Senator Pomerene spoke of the fact that if deposits are taken from national banks for mortgages it will take from the needs of the commercial community, which is quite true; but the commercial community and the demands of that have increased in the last four or five years very rapidly, but very largely at the expense of the other. In other words, they are not running along with the same proportion. The commercial demands are drawing from them, which unquestionably will prevent the housing of the people.

Senator POMERENE. Is not that in large part due to this fact that during the period of the war we did not encourage building very greatly?

Mr. SAUL. Yes, sir.

Senator POMERENE. That was true, even in transportation, giving or priorities, etc.?

Mr. SAUL. Yes.

Senator POMERENE. So that there were not the demands from building contractors for money then that there would be during normal times.

Mr. SAUL. There was not during the war, but since the war there has been, but there has not been the amount of money.

Senator POMERENE. I suspect that is true.

Mr. SAUL. Within the last year I think the report of your investigations shows, Senator, that there were 70,000 houses built last year as against a normal 370,000 prior to 1916.

Senator POMERENE. That is in very large part due to the enormous increase in the value of material.

Mr. SAUL. It is due very largely to that.

Senator POMERENE. I remember when sitting in Cleveland that the lumber men there said that within six months there had been a decline of 33½ per cent in lumber. Well, now, that of course is going to aid very materially when it comes to building contracts in the spring.

Senator MCLEAN. You mentioned the present law which permits national banks to lend a certain percentage of their capital and surplus on real estate for one year. Why not make that three years? Will that not make these real estate loans more popular for the national banks, and will it not help?

Mr. SAUL. You mean make it for three years?

Senator MCLEAN. Yes.

Mr. SAUL. Yes. If you can not make them for but a year there is no one that wants to borrow for a year.

Senator CALDER. I rather got the impression from what you said that you felt that we had been legislating for years developing a banking system for short-term loans and short-term deposits, but that we had done nothing over here in Congress or throughout the country to develop a system of long-term banking for long-term deposits for loans on railroad and on permanent investments. Is that true?

Mr. SAUL. I had not that just in mind, Senator; but, of course, the legislation which has been of such great use to these United States was the Federal reserve act which did develop the commercial banking. Then, the demands of the war coming along it even strained the wonderful machinery of that institution to care for the necessities of the country. But in doing that in this unusual condition it has—I am not suggesting any remedies, because it would take months and months of thought to know what the remedies are that should be applied—but I am suggesting that the money is going out of mortgage investments; that it is going into the national banks, and one part of your two billion in national banks is naturally going into commercial credits instead of mortgages where it possibly would have gone from the savings banks. But there is another thing about a mortgage. In the States you are restricted to 6 per cent on your mortgages. During these times if an investor can get 7 or $7\frac{1}{2}$ per cent on perfectly good securities, he has got to take it.

Now, I want to say this, that in Washington two years ago or a year and a half ago they passed a law making the legal rate 8 per cent. Prior to that time there were two laws which conflicted. One was 6 per cent for the legal rate and one was 10. There was always a question as to whether it was proper to charge 10. They legalized it at 8 per cent. That was done a year or so ago. All the money was being loaned on mortgages at 6 per cent. There was plenty of money to loan, and quite a good deal up to probably last May or June, when the turn came, and the rates got stiffer. During the summer there was hardly any new money to loan on mortgages because credits were being restricted. Since last September the rate has been changed here largely to 7 per cent. Since then there has been more money to loan. I happen to be in that line of business, and I know that during June and July and August a good many of us tried to hold the rate to 6 per cent, because we felt any change to 7 per cent seemed to be temporary. You could not do it. You could not get the money. We had to put the rate up to 7 per cent. Now we have practically a normal supply of money, although I have had one big investor, just as Mr. Knox speaks of, who notified me a couple of months ago not to renew any more loans. We took it up with him, and he said, "I can put it in municipal and State bonds at 5 and $5\frac{1}{2}$ per cent." "Instead of renewing it at 6 we may go at 7." I was then getting 7. He said, "My income will be increased \$15,000 a year." There was not any argument against that, because the other securities were just as good as mortgages. I am not suggesting a remedy, but I am just stating the facts.

Senator McLEAN. Does any other witness wish to say anything?

STATEMENT OF DR. H. H. WHEATON, OF NEW YORK CITY.

Dr. WHEATON. Mr. Chairman, I would like to say one thing, that in New York State we are going to have in 1921 somewhere in the neighborhood of \$250,000,000 available for mortgage purposes. Ordinarily 15 per cent of the amount invested—that is, an average—becomes available during the current year. That would mean, in round numbers, \$195,000,000. Taking 60 per cent of the excess of income from deposits through withdrawals during the year, the

amount which would go into mortgages under our laws at the present rate of deposit would amount to, roughly speaking, \$54,000,000. In other words, approximately \$250,000,000 will be available for proper mortgage investments.

Senator CALDER. From the savings banks?

Dr. WHEATON. From the savings banks. In 1918, of course, due to the war conditions, there was a little over \$20,000,000 invested in real estate bonds and mortgages during the current year. In 1919 that ran up to over \$100,000,000. During the past year—that is, up to June 30, 1920—while we have not the figures, undoubtedly that has been very much increased. With the gradual restoration of normal conditions, proper values, and a proper amount of application, it is going to draw this normal amount into mortgages more and more.

Senator POMERENE. Let me understand you. You mean this \$250,000,000 available is out of bank deposits, renewals of mortgages, etc.; is that what you mean?

Dr. WHEATON. No; 15 per cent of the amount at present invested. Ordinarily as the turnover comes back it is available for new loans, and then 60 per cent of the excess of deposits over withdrawals; that is a fair average.

Mr. KNOX. Assuming that they are as great as they have been last year, I do not think they will be.

Dr. WHEATON. Assuming that they are as great as they were last year, assuming further that the applications are proper for savings-bank investment, there is that possibility in the situation in the State of New York. Now, if you are going to do anything in New York State or other States to encourage prospective savers and depositors to put their money into other institutions, you are going to cripple the savings bank in its investments in the mortgage situation. That, to my mind, is one of the serious dangers of this present bill.

Senator CALDER. I want to say this: I did not have in mind our situation in New York when I introduced this bill. I was thinking of Nevada and Ohio and the rest of the country.

Dr. WHEATON. I appreciate that, Senator; but here is the point, you open up immediately one big thing which the national banks of any State will take advantage of. You permit them in your proposed bill to use the word "savings" in the name of the bank.

Senator CALDER. Yes. They use it in most of the States, do they not?

Senator HENDERSON. Not the name of the bank. They just have "savings department."

Dr. WHEATON. That is different.

Senator CALDER. I see on the windows, "Savings Department, First National Bank."

Senator HENDERSON. That is not permitted in the name of the bank.

Dr. WHEATON. Your proposed bill permits them to do that. That is the biggest part of the advertising feature, in view of the almost copyrighted value of the word "savings" in the name of a savings bank.

Further, you permit them to use that definitely in their advertising. Under our existing State law applying to savings banks, national banks are prohibited from using the word "savings" in advertising

or in the name of the bank. If you permit them to do that in the State of New York, you are going to eat into the deposits that ordinarily would go into the savings bank, an institution that throughout its entire history ordinarily invests in real estate, bonds, and mortgages.

Senator CALDER. You would not fear the competition wherever a safeguard was thrown around them, where they were required to meet all the requirements of this bill, would you?

Dr. WHEATON. If they used the name "savings" the people in our State have grown to know where they see the word "savings," that it is perfectly safe.

Senator HENDERSON. Along that line, I might say that in my home town we have a bank—the Henderson Banking Co.—that advertises in all the papers and has a sign up in the bank, "savings department," but it is not a part of the name of the bank.

Mr. KNOX. Conditions are different in different parts of the country. It would not mean so much in the West. It would mean a whole lot in the East, where the word "savings" applies to a particular kind of institution.

Senator CALDER. I think you are not fearing any competition.

Mr. KNOX. There are a lot of little fellows that might be.

Senator HENDERSON. If you go back 10 years and look at your savings accounts and compare it with to-day, you would see the tremendous increase in savings accounts.

Dr. WHEATON. We are very anxious to help you on the housing proposition. If you can find a way nationally to encourage the establishment of bona fide mutual savings banks in parts of the country where they are really needing them, they will follow the precedents of savings banking and customary methods of savings banking and will naturally invest in real estate bonds and mortgages.

Senator CALDER. In Ohio and other States in the West we have had splendid approval of the building and loan associations.

Dr. WHEATON. That should be encouraged. It seems to me if you can encourage the mutual savings banks and the building and loan associations you will do most to encourage housing.

Mr. KNOX. Senator Calder, you would have to get the present rent laws repealed in New York before you could find speculative builders—and we have quite a number of them in New York—who are willing to go in, take a fair business chance and go ahead with new buildings.

Senator POMERENE. Let me ask you: You spoke of encouraging building and loan associations from a national standpoint. Assuming that we could pass a law of that kind—there is a serious constitutional question which it is not necessary for us to go into now—but assuming that we could, how would you expect that law to improve conditions over and above what the State laws can do? In other words, every State has the power to create these very institutions, whether they are savings banks or buildings and loan associations or what not. If they can do it, it seems to me that the important thing is to agitate, to get the moneyed and other people in these backward States to see the light as you people see it in New York, or as our people see it in Ohio. They can go ahead and do it and they will not be handicapped by these possible constitutional difficulties. One of

the things that is troubling this committee now is what is the Supreme Court going to do with the farm loan act? I think they will sustain it ultimately, but every lawyer who looks into it recognizes the fact that it is a serious problem.

Senator McLEAN. When you get down to these cooperative credit unions which are being organized in the Eastern States, it seems to me that the State lawmakers are closer to conditions, closer to the necessities and they can meet them better than for us here to undertake to establish barriers in Washington.

Mr. KNOX. They can naturally do better at short range.

Dr. WHEATON. That is what I mean; encourage these States in their proper way.

Senator POMERENE. With respect to the building and loan movement in Ohio which Senator Calder has referred to, our people are very proud and very enthusiastic about it to-day, but 50 or 60 years ago they started the building and loan associations, and, due to mismanagement, due to the fact that they were not properly inspected perhaps, there was just one financial crash after another, so that it wholly discredited the building and loan associations. In my home city of Canton when it was a little town of 12,000 or 15,000 they had there two or three of these building and loan associations, and they all went to the wall. As a result there was an attempt to assassinate several of the officers of the company, and for years you could not get a man to go within gunshot of the building and loan proposition. Now, they have got two of the finest building and loan associations in the State of Ohio in Canton. Everybody is enthusiastic about them, and they are doing a wonderful work.

(Whereupon at 12.10 o'clock, p. m., the committee adjourned.)

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